

THE MODERN TRUST COMPANY

ITS FUNCTIONS AND ORGANIZATION

AN OUTLINE OF FIDUCIARY BANKING

BY
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AND
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SIXTH EDITION—ENLARGED AND REVISED

New York
THE MACMILLAN COMPANY

1925

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Set up and electrotyped. Published December, 1905.
Reprinted March, 1906; April, 1908.
Revised edition, December, 1913.
Fifth edition, enlarged and revised, November, 1920.
Reprinted August, 1921.
Sixth edition, revised, June, 1925.

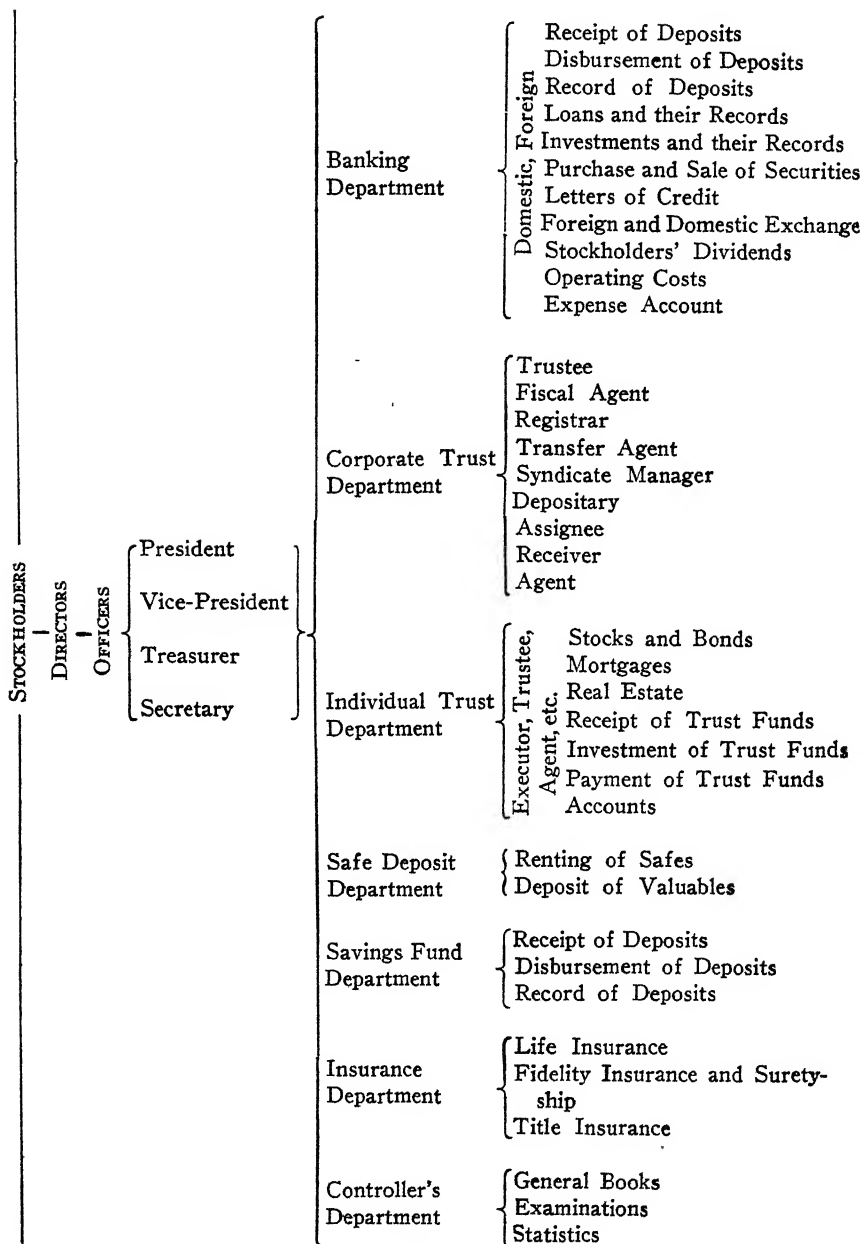
PRINTED IN THE UNITED STATES OF AMERICA.

"Conservatism is really the foundation of all good banking, and it is more especially so in trust company operations than in anything else. The purely trust functions of the old fashioned trust company are undoubtedly the highest development of the principle of credit and of confidence. They are the highest application of that principle to the relation of man to man in business."

HON. WILLIAM B. RIDGELY,

*Comptroller of the Currency, before the Trust Company
Section of the American Bankers' Association, September 13, 1904*

ORGANIZATION OF THE MODERN TRUST COMPANY



PREFACE TO THE FIRST EDITION

To a correspondent asking, "What book or books will best give me a working knowledge of trust company and banking methods; particularly regarding the work of the various departments of the trust companies?" the *New York Evening Post* recently replied that so far as it was aware no such book had been published.

A search in library catalogues confirms the almost equally discouraging statement of the Chief Bibliographer of the Library of Congress that "there is not much literature on trust companies appearing in separate book form." On the other hand, much has been written about the functions, organization, and methods of the banks.

The reason is easily given. The development of the "trust company idea" is a recent one, and only within the past twenty years have these corporations become a prominent factor in the financial world. Until the organization of the Trust Company Section of the American Bankers' Association in 1896, the only publications in reference to trust companies were short chapters in works on banking and an occasional magazine article. Since that time the transactions of the Trust Company Section and articles in banking periodicals and the financial press have constituted the most important contributions to the subject; but in spite of all that has been written on special lines of trust company work, it is still difficult to obtain a general knowledge of what a trust company is and how it does its business.

The aim of the present volume is to describe the functions and organization of the trust company as it exists in the United States to-day. Its history, which dates from the granting of the first trust company charter in 1822, has already been told in a number of interesting papers and addresses, and is therefore not repeated. Practical experience, consultation of all available literature, the examination of trust companies in various parts of this country, and conferences with their officers, have helped to make a composite

picture. The forms and systems described are those which have commended themselves to the authors' judgment as best adapted to the needs of the average trust company. It does not follow that many others are not equally good. The methods outlined in the following pages, although not complete in every detail, are, it is believed, representative of the best systems now employed.

Free use has been made of books and papers on various parts of the subject. To the officers of many trust companies grateful thanks are due for uniformly courteous treatment and much appreciated opportunities of studying their methods.

Special mention must also be made of valuable help rendered by Parker S. Williams, Esq., of the Philadelphia Bar, and by Miss Elizabeth B. Kirkbride.

F. B. K.
J. E. S.

SEPTEMBER 25, 1905.

PREFACE TO THE THIRD EDITION

SINCE the first edition of "The Modern Trust Company" was published in December, 1905, the subject has been one of ever increasing public interest. To this fact must be attributed the general circulation of so technical a book; it has even been reported among the "miscellaneous books most in demand" on the shelves of a public library.

During this time laws have been passed in many states, tending toward the proper control and regulation of trust companies. Renewed emphasis has been given to the necessity for the maintenance of substantial cash reserves by all companies doing a general banking business. The relation of trust companies to the clearing houses has received a thoughtful consideration which bids fair to bring about better understanding between the trust companies and the banks.

In the present edition all references to laws and to clearing house and stock exchange rules have been brought up to date. New titles have also been added to the bibliography.

The panic of 1907, with its immediate demand for corporate vigilance, has driven home the conviction that sound banking principles must be the basis of success in all trust company operations.

F. B. K.

J. E. S.

NEW YORK, FEBRUARY 25, 1908.

PREFACE TO THE FOURTH EDITION

The third edition of "The Modern Trust Company" appeared shortly after the panic of 1907. The fresh realization, caused by the panic, of the need for conservative banking methods, has since borne fruit in considerable legislation and many improvements in practice.

The last five years have witnessed a steady and healthful growth of the trust companies of the United States, together with a more insistent demand for rigid integrity, sound banking, and coöperation between all classes of financial institutions.

The fourth edition appears at a time when the need for a scientific currency system is more generally realized than ever before. The trust companies can take an important part in the creation of an intelligent public opinion.

The new edition of this volume has been brought up to date, and the bibliography has been rearranged and amplified; otherwise the book is unchanged.

F. B. K.

J. E. S.

NEW YORK, OCTOBER 1, 1913.

PREFACE TO THE FIFTH EDITION

The great war put the Federal Reserve system to an early and severe test and during it many trust companies entered the system from motives of patriotism. The strain of war developed the strong points of the system convincingly. Inherent weaknesses and wrong practices were likewise made manifest. Congressional action and regulations of the Federal Reserve Board are in some respects correcting early mistakes and setting new standards of practice.

The rapid assumption of trust powers by national and state banks is a development of no little importance to the people of the United States. All state and national banks to-day have the power to serve their communities in every phase of fiduciary banking. To the trust companies a broader banking field has simultaneously opened larger possibilities for usefulness and profit. If the trust companies have in the past been "department stores" of credit, the term can now be applied more truthfully than ever before.

The mobilization of our gold reserve, the establishment of the rediscount privilege, the nation-wide par clearing of checks, the creation of an open market for bankers' acceptances and prime commercial paper, the development of foreign banking and of dollar exchange have occurred simultaneously with the change in the position of the United States—from a debtor to a creditor nation.

Abuse of the rediscount privilege, selfish opposition to par clearing of checks, and other difficulties will be corrected by a growing public opinion which can be counted on to demand sound practice and perfect banking machinery and service.

The authors are fortunate in having associated with them H. Parker Willis, who was "expert to the House of Representatives Committee on Banking and Currency" during the formation, discussion and passage of the Federal Reserve Act and who was later the first secretary of the Federal Reserve Board. The chapters on "Membership in the Federal Reserve System," "Making Use of the

Federal Reserve System," "Credits and Credit Department," "Operating Costs," "Foreign Banking" and "Commercial Paper" are by him. Other new chapters are on "Tax Department," "Statistical Department" and "Investments." The text throughout has been revised and amplified. All legal references have been brought up to date. New legal and accounting forms have been included.

Free use has been made of original sources of information. Grateful acknowledgment is offered to the many bank and trust company officers who, through helpful suggestion and free access to their forms, have aided in the work of revision. Special mention must be made of the help rendered by Hugh Satterlee, Esq., of the New York Bar, and by Miss Elizabeth B. Kirkbride. The former has verified the legal references, while the latter has again revised the bibliography.

It is the hope of the authors that the book may continue to set a standard of sound and progressive banking and be of practical use to those who manage or work in banks and trust companies or who come in contact with them as counsel, client or student.

F. B. K.

J. E. S.

NEW YORK, OCTOBER 1, 1920.

PREFACE TO THE SIXTH EDITION

IN 1905, twenty years ago, this book was originally published.

During the intervening years it has met a continuous and steady demand. While adhering to the original structure the book has been revised and amplified in order to keep the picture a true one. From 309 pages it has been necessary to expand it to 559 pages in order to cover the broader field which is today occupied by the trust companies and banks transacting fiduciary business.

The increasing number of investors and the security afforded by the corporate fiduciary continue to add each year to the already large totals of business transacted.

Shifting population, transit problems, suburban and rural development require the bank and trust company to follow the client and render acceptable service in a variety of new ways. Branch banking is consequently one of the most insistent problems of to-day. The American ideal is that of independent banks organized primarily to serve the needs of their own communities. Branches may be placed within the same community to meet the convenience of the local client, and yet bear no resemblance to the centralized systems by which a few great institutions through a network of branches control the banking business of an entire country. The Federal Reserve system now provides for ready adjustment of local expansions and contractions caused by the transfer of funds from place to place in response to commercial needs. Membership in the system enables the independent bank to serve its community more efficiently without departing from the fundamental principle of our American banking structure.

Should the current operations of the Federal Reserve banks respond only to the financial pendulum swings of sound commerce, or should

they respond to the pressure for earnings with the accompanying dangers of inflation?

Shall our wealth be lured to other shores in exchange for questionable promises to pay?

The paper of the instalment buyer, which has given rise to the finance company and high cost credit based on unearned and uncertain future income, will, in a deflation period, prove to be a frozen asset. This brings another element of danger into our banking system. The common sense of the individual citizen and the conservatism of the individual banker must combine to halt such tendencies before it is too late. Sound banking is more than ever necessary to the prosperity of this country.

The authors have brought the work up to date and have been assisted by Thomas B. Paton, General Counsel of the American Bankers Association, who has verified the legal references, and by Miss Elizabeth B. Kirkbride, who has again revised the Bibliography.

The book in its sixth edition starts its third decade of service.

F. B. K.
J. E. S.
H. P. W.

NEW YORK, JUNE 1, 1925.

TABLE OF CONTENTS

	PAGE
PREFACE	vii
CHAPTER	
I FUNCTIONS	I
Introduction	I
Banking	7
Corporate Trusts	8
Individual Trusts	10
Care of Securities and Valuables	12
Life Insurance, etc.	13
Government Regulation	13
Public Trustees	15
II ORGANIZING A TRUST COMPANY	20
Charter and Capital	20
Stockholders	29
Board of Directors	32
Interlocking Directorates	36
III MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM	39
Introduction	39
Membership in Reserve System	39
Application	40
Rejection of Applications	43
Admission to Membership	43
Compliance with Reserve Act	44
Privileges of Membership	45
Duties and Obligations of Membership	46
Loss of Membership	46
Trust Powers of National Banks	47
Method of Making Application	48
Should Trust Companies Apply?	49
Character of Reserve System	49
Trust Companies on the Margin	50
Reserve System no Panacea	51
Trust Companies Controlled by Banks	52

IV	OFFICERS	54
	Introduction	54
	President	57
	Vice-President	61
	Treasurer	62
	Secretary	64
	Manager of Corporate Trust Department (Trust Officer)	66
	Manager of Individual Trust Department (Trust Officer)	67
V	BANKING DEPARTMENT	71
	Organization	71
	Receiving Teller	72
	Paying Teller	79
	Clearing Trust Company Checks	87
	Care of Deposits	103
	Reserves	115
VI	BANKING DEPARTMENT (CONTINUED)	118
	Loans and Their Records	118
	Money Rate	133
	Investments	135
	Purchase and Sale of Securities	140
	Stock Ledger and Stockholders' Dividends	142
	Expense Account	144
	Petty Cash Receipts	148
	Petty Cash Payments	148
	Payment of Salaries	149
VII	MAKING USE OF THE FEDERAL RESERVE SYSTEM	151
	Control of Reserve Banks	151
	Process of Rediscounting	152
	Elements of Eligibility	152
	Testing of Eligibility	153
	Direct Borrowing	156
	How Credit Is Granted	157
	Collections and Renewals	158
	Classes of Paper	159
	Banker's Acceptance	161
	Keeping Up the Reserve Balances	164
	Cost and Saving Through Federal Reserve System	165
	Some Current Problems of Trust Companies	167

TABLE OF CONTENTS

CHAPTER		xvii PAGE
VIII	CREDITS AND CREDIT DEPARTMENT	169
	Introduction	169
	Function of Credit Department	170
	Basis of Credit	171
	Customer's Statement	171
	Helping the Business Man	172
	Analysis of Condition	176
	Other Sources of Information	179
	Coöperative Agencies	182
	Use of Credit Information	183
	Keeping Track of Liabilities	185
	General Study of Credit	185
IX	TAX DEPARTMENT	189
	Introduction	189
	Federal Income Tax Laws	189
	The War and Taxation	191
	Trust Company's Interest in Tax Matters	191
	Income Tax Returns	192
	Withholding	195
	Inheritance Taxes	195
	Work of Tax Department	196
X	OPERATING COSTS	198
	Introduction	198
	Trust Company Costs	199
	Banking Costs	201
XI	STATISTICAL DEPARTMENT	217
	Introduction	217
	Functions	218
	Organization	219
	Quotation Index	220
	Analysis of Securities	225
	Analysis of Trust Accounts	233
	Future Development	234
XII	FOREIGN BANKING	239
	Introduction	239
	Nature of Foreign Banking	239
	Organization for Foreign Banking	241
	Foreign Discounting	242

	PAGE
Collecting	243
Foreign Remittance and Exchange	245
Acquiring Foreign Credit	247
Some Special Services	248
Foreign Exchange Policy and Market	248
Internal Organization	249
Controlling Foreign Business	258
 XIII CORPORATE TRUST DEPARTMENT	 259
Trustee	259
Fiscal Agent	269
Registrar	274
Transfer Agent	277
Voting Trusts	286
Manager of Underwriting Syndicates	286
Depository Under Plans of Reorganization	288
Assignee and Receiver	291
Agent	292
Accounts	293
Compensation	294
 XIV INDIVIDUAL TRUST DEPARTMENT	 295
General Organization	295
Appointment	296
Care of Stocks and Bonds	301
Index of Securities	304
Arrangement of Securities in Vault	308
Collection of Interest and Dividends	311
Care of Mortgages	315
Care of Real Estate	323
Insurance on Real Estate	331
 XV INDIVIDUAL TRUST DEPARTMENT (CONTINUED)	 334
Receipt of Trust Funds	334
Disbursement of Trust Funds	335
Record of Individual Trusts	338
Individual Trust Ledger	348
Trust General Ledger	351
Compensation	355
 XVI INVESTMENTS	 360
Fundamental Principles	360
Legal Basis	362

TABLE OF CONTENTS		xix
CHAPTER		PAGE
	Rules for Investing	366
	Types of Securities	370
	Purchase and Sale of Securities	376
	Machinery of Investing	377
XVII	COMMERCIAL PAPER	379
	What Is Commercial Paper?	379
	Essentials of Commercial Paper	380
	Types of Paper	381
	Action of Reserve Board	382
	Theory of Commercial Paper	387
	Policy as to Paper	388
	Open Market Dealings	389
	Dangers of Buying Commercial Paper	390
	The Best Type of Paper	391
XVIII	SAFE DEPOSIT DEPARTMENT	397
	Introduction	397
	Renting of Safes	401
	Deposit of Valuables	407
	General Books	410
XIX	SAVINGS FUND DEPARTMENT	413
XX	LIFE, FIDELITY, AND TITLE INSURANCE AND SURETYSHIP	419
XXI	GENERAL ACCOUNTING	423
	The Controller	423
	Company's General Ledger	424
	Audits and Examinations	433
XXII	MISCELLANEOUS SUBJECTS	440
	Correspondence or Mail Room	440
	Clerical Force	446
	Messengers, Watchmen, and Cleaners	450
	Office Building	451
	Luncheon Room	453
	Purchase and Care of Supplies	454
	Advertising	458

	PAGE
APPENDIX	461
Code of Laws of the District of Columbia (Subchapter XI)	461
Schedule of Charges—A. B. A.	472
New York Stock Exchange, Requirements from Applicants for Listing Stocks or Bonds	488
New York Stock Exchange, Rules for Delivery	504
 BIBLIOGRAPHY	 519
Periodicals and Annual Publications	519
Books and Articles on Trust Companies	521
Trust Companies and Their Equivalents in Other Countries	526
References to Related Subjects	529
 LIST OF FORMS	 537
 INDEX	 543

THE MODERN TRUST COMPANY

CHAPTER I

FUNCTIONS

INTRODUCTION

MODERN industrial society has developed the bank as a means of facilitating exchange, while it has developed the trust company as a means of facilitating the distribution and investment of capital. The two services—that of extending credit and facilitating exchange, on the one hand, and of lending to borrowers or facilitating the growth of industry, on the other hand—are distinct and separate. In some countries this separate character is fully recognized by law and custom. Commercial banking is there a profession apart, while the task of caring for and investing funds which are expected to yield an income is performed by institutions solely devoted to that purpose. Conditions in the United States have not fostered this separate development, but have rather tended to fuse the functions of banking and investment. Under the Federal Reserve Act provision has been made for the performance of fiduciary functions by national banks, while in most states trust companies have for many years exercised banking powers as ancillary to their investment functions. It is nevertheless true to-day and probably will continue to be true that a large number of institutions specialize in the performance of fiduciary and investment functions, and these are for the most part trust companies organized under state law. With the trust company as such, this book is especially concerned.

A trust company might be organized without any banking functions, and there are to-day companies at various points in the United states whose banking functions are either rudimentary or prac-

tically non-existent. The early history of trust companies in the United States, however, showed the banking functions to be so desirable that they came to be regarded as a natural and integral part of the trust company's work.

The modern trust company as a rule, therefore, includes as the two chief parts in its organization, the banking department and the trust department. The work of the banking department may be limited to the acceptance of deposits and the making of loans, or it may include all the varied activities of commercial banking. In either case its relation to the trust department is most important.

The advantages of combining the two functions are evident. A trust company without any banking department would have to deposit with some other institution the funds which it holds in cash as a part of its fiduciary operations, and would also have to apply to other institutions for many kinds of assistance and recognition which its own banking department might furnish. The trust company can also serve the convenience of its clients by offering them banking facilities and can furnish trust facilities to its banking clients, thus making each department contribute to the success of the other.

The dangers of the system are equally clear. The first requirement of all sound trust business is the integrity of the trust estate. A distinction must therefore be maintained between the funds in the trust department and in the banking department. The trust company cannot allow its trust funds to be employed in the conduct of its general banking business, nor can it risk a loss of confidence in its trust department through hazardous undertakings in its banking department.

The special character of trust company banking has been recognized by law. The national bank is permitted to issue its notes, which become part of the currency of the country. Its funds are largely employed in making unsecured loans by discounting the notes of its customers. Trust companies, on the other hand, are not allowed to issue such notes, and are in some states prohibited from discounting paper. The national banks are allowed to make loans secured by real estate only within prescribed limits and subject to various restrictions,¹ while the trust companies invest a considerable

¹ By Section 9763 of the Compiled Statutes (Act of December 23, 1913, Chap. 6,

portion of their funds in mortgages, and are in other ways allowed to keep their assets in less liquid form. Subject to certain qualifications, national banks are not permitted to make loans exceeding one-tenth of their capital and surplus to any person. The provisions in trust company charters have been more liberal and have enabled these institutions to make larger advances, and so to take part in the development of the resources of the country on a larger scale. National banks, as a rule, do not pay interest on the accounts of individuals or firms, but do extend credit to them. Trust company deposits tend to be less active than those of commercial banks. The trust companies are, therefore, able to allow interest and thus to attract those who seek some return on idle funds or on savings, but who are not in need of unsecured loans.

The problem of combining banking and trust functions has been met in several ways. Even before the adoption of the Federal Reserve Act, some states allowed the same companies to exercise commercial banking and trust powers in separate departments. Another method is for the same individuals to organize a national bank under national laws and a trust company under state laws. Still another expedient is the organization under state laws of a securities company or trust company controlled by a national bank with the stock interest in the former distributed among the owners of the stock of the bank and evidenced by indorsement on its certificates. This enables a closely affiliated and controlled organization to exercise legitimate functions which are outside the province of a national bank. The practice in Illinois of allowing a banking company to qualify under the law granting trust powers, is based on a sounder principle than the close relation between institutions acting under separate charters, amenable to different laws, but controlled by identical interests. By a recent amendment of the New York statute the Superintendent of Banks may authorize banks applying therefor to act in any fiduciary capacity in which trust companies are permitted to act.

Sec. 24, as amended September 7, 1916, Chap. 461) national banks not situated in a central reserve city may make loans secured by farm lands and unencumbered real estate located within one hundred miles of the bank, but loans on farm lands may be made for no longer time than five years, and on other lands for no longer time than one year, and the aggregate of such loans shall not exceed 25% of the bank's capital and surplus or one-third of its time-deposits.

Under the Federal Reserve Act national banks are permitted to exercise fiduciary powers, while the privilege of membership in the Federal Reserve system has been extended to trust companies.

The powers of trust companies vary in different states, and when they are created by special legislation, local companies are found with different charter privileges. The capital and surplus of these institutions are liable for their acts in fiduciary capacities, and in some states they are required to deposit with one of the state departments a fund as a special guarantee. The liability assumed is generally accepted by the courts in lieu of the bonds which individuals acting in similar capacities are required to give.

It is customary for the courts to designate or approve certain trust companies as depositories for funds paid into court, and the effect of such designation or approval is to relieve executors, trustees, or others acting in a fiduciary capacity and depositing with these companies from liability for loss through their failure. A person charged with due care in the selection of a depository could not be held to have been wanting in such care in choosing as a depository a trust company which the court has itself approved.

The development of trust companies in the United States has been remarkably rapid. Since 1822,¹ when the first legal authority was given for the exercise by corporations of fiduciary powers, they have steadily grown in number until there are now more than twenty-five hundred, distributed as follows:

Alabama	40	Florida	41	Louisiana	56
Arizona	10	Georgia	28	Maine	53
Arkansas	47	Idaho	7	Maryland	29
California	33	Illinois	143	Massachusetts	95
Colorado	16	Indiana	170	Michigan	12
Connecticut	82	Iowa	95	Minnesota	30
Delaware	18	Kansas	16	Mississippi	32
District of Columbia	7	Kentucky	68	Missouri	114

¹ April 17, 1882, The Farmers' Fire Insurance & Loan Company of New York (now the Farmers' Loan and Trust Company), incorporated on February 28, 1822, was granted trust powers by a supplement to its charter.

March 9, 1830, the New York Life Insurance & Trust Company (now the Bank of New York and Trust Company) was chartered.

February 26, 1836, The Pennsylvania Company for Insurances on Lives and Granting Annuities of Philadelphia, incorporated as a life insurance company on March 10, 1812, was granted trust powers by a supplement to its charter.

March 17, 1836, The Girard Life Insurance, Annuity & Trust Company of Philadelphia (now The Girard Trust Company) was chartered.

All these companies are still flourishing.

Montana	14	Oklahoma	9	Vermont	40
Nebraska	25	Oregon	10	Virginia	41
Nevada	3	Pennsylvania	398	Washington	20
New Hampshire....	14	Rhode Island.....	12	West Virginia.....	36
New Jersey.....	154	South Carolina.....	20	Wisconsin	15
New Mexico.....	3	South Dakota.....	7	Wyoming	5
New York.....	93	Tennessee	107	Hawaii	10
North Carolina....	106	Texas	73		
North Dakota	4	Utah	19	Total	2562 ¹
Ohio	82				

Their business in all departments has shown a steady increase, and the trust companies of the United States to-day carry deposits amounting to over \$13,289,148,000.¹ Total deposits in the 8,085 national banks aggregate \$18,347,837,000.²

The earning power of trust companies has equalled and even exceeded that of the banks, and the stock of those companies which are well established and doing a flourishing business sells at such a premium that investment in it at its market value gives a very low return.

Trust company failures have been few and far between, and where they have occurred they can be traced to a disregard of sound banking principles and to the assumption of unwarranted risks. Even in the case of companies which have failed there is no record of any impairment of trust funds, whatever loss there was having been borne by the stockholders and, to a less degree, by the depositors. This fact, the result of the absolute separation of trust assets from assets belonging to the company, is the strongest argument for the employment of trust companies in fiduciary capacities, and explains their rapid growth in popular favor.

The literature put out by these institutions invariably recites the advantages to be gained by dealing with them instead of with individuals. The following is a good example of such reasoning:—

"THE ADVANTAGES OF A TRUST COMPANY AS TRUSTEE.

"A trust company is preferable to individual trustees, because it possesses every quality of desirability which the individual lacks, to wit:—

¹ June 30, 1924. Compiled from "Trust Companies of the United States," published by the United States Mortgage & Trust Company, New York.

² June 30, 1924. Report of the Comptroller of the Currency, 1924.

- (1) Its permanency; it does not die.
- (2) It does not go abroad.
- (3) It does not become insane.
- (4) It does not imperil the trust by failure or dishonesty.
- (5) Its experience and judgment in trust matters are beyond dispute.
- (6) It never neglects its work or hands it over to untrustworthy people.
- (7) It does not refuse to act from caprice or on the ground of inexperience.
- (8) It is invariably on hand during business hours and can be consulted at all times.
- (9) Its wide experience of trust business and trust securities is invaluable to the estate.
- (10) It is absolutely confidential.
- (11) It has no sympathies or antipathies and no politics.
- (12) It can be relied upon to act up to its instructions.
- (13) It does not resign.
- (14) All new investments of value suitable for trust estates are offered in the first instance to trust companies, and in that way it has a choice of valuable security; and as its purchases are on a scale of magnitude, it can usually buy at a rate which is lower than that at which the individual trustee can purchase."

The most common objection to the appointment of corporate trustees is thus stated by Augustus Peabody Loring, Esq.:¹ —

"The trust companies, which have of late years become so numerous, to a considerable extent do away with the element of personal risk attaching to an individual trustee; but they lack the advantages of personal management. These companies sometimes fail from improper management as utterly as individuals do, and as a rule the lack of personal management results in securing the minimum return only on the amount invested, and lacks the great advantages often secured by the able personal oversight of individual trustees."

Thomas Leaming, Esq., viewing the matter from the standpoint of the beneficiary, says, "No doubt there are some objectionable features in having for a trustee a corporation, which has neither a body to be kicked nor a soul to be damned."²

The question, after all, comes back to the personal qualifications of corporate officers and individuals. If the former are less capable than the latter, the fault is with the particular company,—not the system, and if interest returns are sometimes less under corporate management, this fact is more than equalized by the added safety to the corpus of the estate.

¹ "A Trustee's Handbook," p. 15.

² "Trust and Title Insurance Companies," *Lippincott's Magazine*, Vol. XLII, p. 887.

A "Trustee Company" has been suggested as a proper title for the company doing a legitimate trust business, and is the name used in Australia and in New Zealand. In many states the use of the word "trust" in corporate titles is now regulated by law. Confusion has arisen in the popular mind between the trust company and the trusts or industrial combinations.

The usual functions of a trust company are: banking in a more or less limited form, execution of corporate trusts, execution of individual trusts, care of securities and valuables. In addition, other functions are sometimes exercised, such as life, title, and fidelity insurance, and the business of becoming surety. The earlier companies in the United States were chartered to manage individual estates only and to act in certain fiduciary capacities; the recent development of the trust company has been in the direction of banking functions and corporate trust business.

It is worthy of note that the life insurance companies which originally secured trust powers have, with but few exceptions, given up their life insurance business, and that most of the fidelity insurance and surety business is given over to companies which now make a specialty of such risks. In the same way, many title insurance companies transact a banking and trust business, but tend to confine themselves more and more to title insurance. In other words, the fact is being recognized that the assumption of vast risks contingent on future occurrences is not compatible with the absolute security which is essential in the transaction of legitimate trust business.

BANKING

The banking functions of trust companies may include any or all of the following:—

The receipt of money deposits payable on demand and subject to check, or payable at a fixed date, or according to special agreement. Interest is usually allowed on all deposits above a fixed minimum amount or on the total sum.

The advancing of money secured by the hypothecation of stocks, bonds, life insurance policies, bonds and mortgages, or other personal property.

The making of real estate loans, secured by bond and mortgage. It is customary to loan not over two-thirds of the value of improved property ; when the property is unimproved, not more than half.

The discounting of paper. This was formerly engaged in principally by companies transacting a commercial banking business.

The purchase of unsecured paper, permitted in some states where discounting is not allowed.

The discounting of paper eligible for rediscount with a Federal Reserve Bank. This is becoming increasingly important.

The purchase and sale of securities.

The guarantee of issues of bonds, or at least setting the trust company's stamp of approval upon them.

The issue or guarantee of letters of credit, and the transaction of a foreign exchange business.

The care of savings deposits. For this purpose a separate department is usually maintained.

CORPORATE TRUSTS

Among the most important functions of a trust company are those relative to the business of other corporations.

"Of late years the trust companies in the Eastern cities have been selected as trustees instead of individuals whenever the law of the state where the property was situated allowed such selection. Trust companies have manifold advantages over individuals in such a relationship ; they do not die ; the large amount of financial business which they daily transact provides them with the machinery for such purposes ; while their well-known names stand as evidence to the purchasing public that at least the necessary formalities have been complied with. Beyond that responsibility the trustees of corporation mortgages usually assume none.

"In recent years the trust companies have shown a tendency, when acting as mortgage trustees, to recognize a greater moral responsibility than they at first were willing to bear. Trust companies did not, of course, intend to appear as in any way guaranteeing the bonds to which they certified, though that seems often to have been the erroneous opinion of the unthinking ; but trustees now acknowledge themselves bound within the limits of the mortgage to use their influence to protect the interests of the bondholders. A trust company which should now allow the issue of unsecured bonds because of some glaring defect in the language of the mortgage, would not longer be morally excused by financial opinion, though perhaps held technically innocent.

"One way in which the sentiment attributing some sort of ethical respon-

sibility to trustees of corporation mortgages manifests itself is through slight alterations in the wording of the mortgage itself. The old language was that the trustee was to be held harmless under all circumstances. Now the trustee is often found willing to assume responsibility at least for gross negligence of servants or clerks not carefully selected. If to some such phrase be added a more careful drawing of the mortgage as to its provisions against unauthorized issues of bonds, a better compliance with the ethics of the situation would be had; for it is undeniable that a part of the public complaint against the fraudulent issue of bonds should be directed against the inadequate safeguards imposed in the mortgage rather than against the trustee."¹

As trustee under corporate mortgages and trust deeds, the trust company acts for the bondholders. It is customary for it to authenticate each bond issued subject to the provisions of the mortgage, to represent the bondholders in case of default, and to exercise such other functions as may be provided in the mortgage.

As fiscal agent, it dispenses coupon and interest payments on bond issues, and dividends on stock. It receives sums set aside as sinking funds to provide for the retirement of obligations at maturity, or, when bonds are subject to redemption, draws the specified amount by lot and pays the principal.

As registrar, the trust company authenticates certificates of stock and bonds in order to prevent an over-issue, and to reduce the chance of loss or theft.

As transfer agent, the company attends to perfecting transfers of ownership for stock and bond issues or parts thereof.

As manager of underwriting syndicates, the trust company issues the prospectus and markets the securities of corporations which are being launched, or of established companies which are putting out new securities.

In railroad and other reorganizations, the trust company takes a prominent part, acting both as a depository for, and as a representative of, the committees which formulate and execute the plans of reorganization. Its officers often have a large share in the preparation of such plans.

As assignee and receiver, the trust company acts in the same capacity for corporations as for individuals and firms or partnerships, assisting in winding up insolvent businesses and in conducting embarrassed ones.

¹ "Corporation Finance," Thomas L. Greene, p. 59.

INDIVIDUAL TRUSTS

The execution of individual trusts is the function originally assumed by trust companies. The various other forms of business which are now engaged in, have, with the exception of life insurance, been later developments of the trust company idea. The earliest power granted these companies was to receive moneys or other property, real or personal, in trust. The trust company now also acts as executor and administrator of the estates of decedents.

As executor appointed by the will of a decedent, it takes out letters testamentary upon probate of the will, advertises, files inventory and appraisal, pays debts, collects claims, makes the requisite accounting to the probate or orphans' court, and makes distribution of the estate in accordance with the terms of the will and the court's decree.

As administrator acting under appointment of the registrar of wills or probate court, it performs similar duties, distributing the estate in accordance with decedent's will if there is one, or if there is none, in accordance with the intestate laws of the state, which specify the order of succession and distributive shares in the case of estates of decedents leaving no wills. There are different kinds of administrators, in any of which capacities a trust company may be called upon to act. In Pennsylvania, for example, there may be (a) a general administrator, when there is no will; (b) an administrator *cum testamento annexo*, when decedent has left a will without naming an executor or the executor named refuses to act or has died; (c) an administrator *de bonis non*, when the first administrator has died or has been discharged before the estate has been fully administered and his successor is appointed to complete his work [this may occur in both cases (a) and (b); if it occurs when there is a will, the new administrator is called administrator *de bonis non cum testamento annexo*]; (d) an administrator *pendente lite*, when appointed to take charge of an estate pending litigation on the will of the decedent; (e) an administrator *durante minoritate*, when appointed to act during the minority of an executor; (f) an administrator appointed under ancillary letters to act in a particular state when other letters have been issued elsewhere.

As trustee under a will, the trust company carries out the provisions of the will, investing and managing the estate or particular fund in accordance with the directions of the testator. As such it may hold real and personal property.

As trustee under a deed or private agreement, a contract is entered into between the company and the owner of the property, by which the title to the property is vested in the corporation subject to the terms recited in the instrument. Such deeds of trust may be revocable or irrevocable. Marriage settlements are frequently made in this way.

Accounting to the probate or other proper court by testamentary trustees is generally regulated by law. Accounting by trustees under deed is usually regulated to some extent at least by the provisions of the instrument creating the trust.

The trust company acts as guardian, curator, or committee of the estates, and in some states, of the persons of minors, those who are insane or mentally incompetent, spendthrifts, drunkards, and any other persons not legally qualified to take charge of their own affairs. In the case of a minor, the trust terminates on the ward's becoming of age; in other cases, when the disability is removed, or in accordance with a decree of court. These appointments are frequently made by order of court, and to it accounting must be made. In some states the company is styled "conservator" when caring for the estates of persons of unsound mind.

When acting as attorney in fact, the company obtains its authority by virtue of a letter of attorney which usually is or can be recorded, conveying certain definitely specified powers. This may either be to perform a single act — such as to satisfy a mortgage — or may be broader and continuing, granting authority to sell and transfer securities and collect income. A general power of attorney, as the term indicates, is a delegation to another of the general powers of the person appointing — as to payments, collections, transfers of property, and all transactions of a business nature.

As agent merely, the company takes charge of property, real or personal, for its owner, but such agency does not imply nor ordinarily include authority to sell or convey title.

As assignee, the trust company takes possession of the property

assigned for the purpose of carrying out the terms of the deed of assignment in the interest both of the assignor and the creditors of the assignor. The deed of assignment is an acknowledgment of an embarrassed or insolvent condition, and the efforts of the assignee are directed to realizing as much as possible from the assets intrusted to its management.

As receiver, the duties may be very similar to those of assignee, although they are usually broader in scope. The business may not be insolvent, and the application for the appointment of a receiver may be due to temporary difficulties only. By such an appointment the property is preserved intact and equal treatment is afforded creditors. An able receivership often results in the adjustment of difficulties and the return of the property to its owners on a paying basis. While in the case of assignee the appointment is by the individual, partnership, or corporation executing the deed of assignment which specifies the powers and duties of the assignee, in the case of receiver the appointment is by a court and the company so appointed acts as an appointee or ministerial officer of the court, and as such is directly subject to the court's orders.

As custodian or depositary, the trust company sometimes holds property the title to which is in dispute, delivering the same when the ownership is legally determined.

In taking charge of escrows or conditional instruments or deeds delivered to a third party until the condition is performed, the trust company acts in a similar capacity, as the joint representative of both parties.

The trust company acts as the representative of both the living and the dead in practically every legal relation in which an individual is qualified to act. Its function is not only to keep intact the estate of which it has charge, but to look to and safeguard the interest of every beneficiary.

CARE OF SECURITIES AND VALUABLES

The functions already recited have resulted in the assumption of the duty of caring for property other than that of the estates held in the trust department. In the safe deposit department, individual

safes are rented, bulky packages — not containing stocks or bonds — are received on storage, certificates of deposit covering securities are issued, and provision is made for access to, and examination of, the property so deposited. For personal property received on storage, the charges are either according to bulk or value. Wills are usually receipted for and kept without charge.

LIFE INSURANCE, ETC.

Issuing life insurance policies, and granting annuities payable during the life of the beneficiary, were formerly important trust company functions, now usually delegated to companies making a specialty of such business.

The examination and insurance of real estate titles is a later development often found in connection with the usual trust functions.

Fidelity insurance and suretyship providing against loss by reason of the dishonesty of individuals and the non-performance of obligations, contracts, etc., have often been combined with the various forms of trust company activity. They are, however, largely passing into the hands of corporations especially organized for the transaction of such business.

GOVERNMENT REGULATION

National legislation provides for the incorporation and regulation of trust companies in the District of Columbia.¹

Under the Federal Reserve Act the Federal Reserve Board is authorized to grant to national banks applying therefor, the right to act in fiduciary capacities. Membership in the Federal Reserve system has been extended to trust companies upon condition that they comply with the same general requirements as banks in the matter of reserves. The Federal Reserve Board in its regulations has permitted member trust companies to continue to lend under the broader provisions of state laws, yet it has in a number of ways² tried to restrict their lending powers. Rediscounting with Federal Reserve Banks is conducted

¹ See Appendix, p. 461.

² See Chapter III.

under exactly the same system of control, supervision and regulation which applies to the banks that are members of the system. Until such legislation was enacted, corporations exercising trust functions were entirely governed by state laws.

Hon. William Barrett Ridgely, Comptroller of the Currency, in 1904,¹ while discussing the tendency of banking corporations under state control to increase more rapidly than national banks, said:—

“Probably the principal reason for this tendency is the great increase in the number of trust companies which have been organized during the last ten years. These companies, organized under state laws originally designed to provide for companies doing a strictly trust business, are taking advantage of the liberal character of those laws, and a very large portion of the new organizations are merely commercial banks, having trust company privileges perhaps, but in reality doing comparatively little strictly trust company business. The laws of the different states, particularly in regard to the cash reserves to be held, and loaning money on real estate security, are so liberal that organizations of this character have a great advantage over the national banks in the inducements which they can offer their customers. It is naturally to be supposed that any one contemplating the organization of a new bank, other things being equal, will be inclined to do so under the laws which allow the greatest freedom from governmental interference, restriction and control.”

An examination of the laws of the various states is interesting as showing the attempts which are being made at regulation. Most of these laws have been enacted within recent years and to-day there are but few states which do not have such statutes on their books.

The step which Massachusetts first took in requiring a legal reserve to secure deposits has been followed by similar action in other states. In general, the wisdom of prohibiting companies which engage in the care of estates from assuming excessive risks has become better recognized. The promotion and underwriting of commercial ventures and the assumption of unknown risks are functions not compatible with the proper exercise of the duties of trustee or executor.

Hon. Frederick D. Kilburn, State Superintendent of Banks of New York,² says:—

“This (state) control should be sufficiently comprehensive to regulate the organization, provide ample supervision, and restrict investment, in a way that will conserve, in so far as human ingenuity can provide, the interests of the

¹ “Annals of the American Academy of Political and Social Science,” Vol. XXIV, p. 23.

² *Ibid.*, Vol. XXIV, p. 42.

public. Investment by such institutions in untried securities, promotion of questionable enterprises, speculative underwriting of stock or bonds, and all other acts of a nature involving dangerous investment or promotion of individual interests, should not only be prohibited, but made a penal offence if indulged in contrary to law."

Such views are held by many people who see with concern the assumption by trust companies of functions and risks which were never dreamed of by those who framed the laws under which they act.

The supervision of trust companies by the separate states aims to provide an elastic system to supplement the rigidly guarded powers of the national banks, and one which can adapt itself to changing conditions and enlarging needs, leaving for solution according to the requirements of each section of the country such questions as proper functions, reserves, and the authority to establish branch offices.

PUBLIC TRUSTEES

The great war forced the United States Government into the trust company field through the creation of the office of Alien Property Custodian.

An Act of Congress known as the Trading with the Enemy Act was approved October 6, 1917.¹

Under this law and executive orders issued in pursuance thereof, it became the duty of all persons in the United States having the custody or control of any property of whatsoever nature belonging to, held for, or owing to an enemy person, to make report thereof to the Alien Property Custodian, by whom it was to be administered with all the powers of a common-law trustee.

At the close of business on February 15, 1919, 34,400 reports of enemy property had been received. The property of each enemy person is treated as a separate trust and is administered by an organization which is built on the general lines of a trust company. The number of trusts amounts to 23,987, with an aggregate value of \$276,559,673.59.

No trust company in the world handles so many trusts as the Alien Property Custodian, and none has been compelled to handle even a

¹ By Act approved March 4, 1923, the Alien Property Custodian is authorized to return property to aliens or other claimants under specified conditions and limitations, to pay taxes and expenses out of property in his custody and, except as provided, property in his possession is exempt from process for the collection of debts.

fraction of the number while in the process of building an organization to take care of the work.

Upon the Bureau of Trusts will rest the continuing responsibility of conserving, administering, and accounting for the properties of enemies as long as the office exists.¹ Although the Bureau of Trusts is the largest bureau in the office of the Alien Property Custodian, it would have been many times its actual size but for the depositaries which Congress provided for in the act. Over 500 banks and trust companies have been so designated throughout this country and its territories and insular possessions.

Depositaries are designated for all enemy properties other than money and securities of the United States. Money and securities of the United States are deposited in the Treasury. Responsible banks and trust companies which report enemy property are designated, whenever possible, depositaries for such property. Responsible banks or trust companies are designated depositaries for properties reported by others in those places, if practicable, where such properties are situated, preference being given to those banks or trust companies which are members of the Federal Reserve system. In unusual trusts an individual is designated co-depositary with a bank or trust company, where his familiarity with the property makes such a course advisable. There are no local custodians and no exclusive depositaries. There may be, and frequently are, many depositaries in those places where large numbers of enemy properties (in several trusts) are located.

When the Trading with the Enemy Act was originally passed there was little accurate or definite knowledge as to the extent of the Ger-

¹ An analysis of the books in the Division of Accounts of the office of the Alien Property Custodian and the demands on file not yet complied with as of February 13, 1919, reveals the following facts regarding the nationality of the former owners of the property seized:

Nationality	Number of trusts opened	Estimated Value of property
German enemies	17,339	\$326,855,090.39
Austrian enemies	7,580	39,555,557.34
Interned enemies	140	3,457,898.17
American enemies	648	91,866,053.40
Other enemies	1,567	40,371,354.63
Net Income from Treasury Investments .....	.....	839,770.82
Total	27,274	\$502,945,724.75

man investment in the United States. While it was known to be large it was not generally suspected of being either powerful or particularly unfriendly to American interests. Consequently, the original Trading with the Enemy Act made the Alien Property Custodian a mere conservator, restricting his powers of disposition of enemy property to cases where it was necessary to make sale in order to prevent waste and protect the property.

When Congress passed the amendment giving to the Alien Property Custodian the general power of sale, it was with the purpose in mind that the German industrial army on American soil should be captured and destroyed.

Germany very promptly recognized the vital significance of the new policy when the sales amendment was adopted and a general program of sale of enemy-owned industries was announced. She bitterly protested through official channels that the plans of the Alien Property Custodian "were designed to destroy Germany's economic existence upon this continent."¹

The Public Trust Office of New Zealand² was established in 1872. At the close of 1924 the office was administering 10,537 estates of a value of £32,404,724.³ Under the New Zealand law all capital moneys in any estate vest in the Public Trustee and are placed in one general fund called the Common Fund, unless there are specific instructions to the contrary. The capital and interest of all moneys so invested are guaranteed by the state. The investments are consequently liquid, as the securities in the Common Fund are not earmarked to any special estate. The state guarantee does not apply in cases where the Public Trustee is given specific directions in regard to investments which are to be made and held outside the Common Fund.

The Public Trustee is by statute given power to elect to administer small estates of a value not to exceed £400. This power applies where a person leaves a will or dies intestate. The only expense involved is a court fee of three shillings.

¹ Report of Alien Property Custodian, 1919, pp. 7-23.

² See Public Trust Office Act, 1908. Public Trust Office Amendment Acts, 1912, 1913, 1917, 1919.

³ Report of the Public Trust Office, Wellington, N. Z., 1924.

Great Britain followed the example of New Zealand by the passage of the Public Trustee Act of 1906,¹ which became operative on January 1, 1908. The act applies to England and Wales, but does not extend to Ireland or Scotland. The rapid growth of the Public Trustee Office is shown by the following figures:

NUMBER OF CASES ACCEPTED AND APPROXIMATE VALUES

	<i>No.</i>	<i>Value £</i>
1908 three months to 31st March.....	63	384,317
1908-1909 twelve months	381	3,133,523
1909-1910 twelve months	622	4,989,191
1910-1911 twelve months	877	6,548,641
1911-1912 twelve months	1050	8,626,315
1912-1913 twelve months	1364	12,067,535
1913-1914 twelve months	1573	13,425,343
1914-1915 twelve months	1542	11,623,429
1915-1916 twelve months	1595	16,622,194
1916-1917 twelve months	1811	16,544,193
1917-1918 twelve months	1876	17,861,889
1918-1919 twelve months	1767	17,178,617
1919-1920 twelve months	1949	21,464,226
1920-1921 twelve months	1559	15,682,492
1921-1922 twelve months	1136	19,911,220
1922-1923 twelve months	955	15,332,309
1923-1924 twelve months	1013	15,463,118
Total (sixteen years three months to 31st March, 1924) ..	21133	216,858,552
		<i>Value £</i>
Total number of cases accepted	21133	216,858,552
Deduct number of cases distributed	5234	41,098,522
Number of cases now current	15899	175,760,030

The main office is in London. A branch office was opened on April 1st, 1914, at Manchester.

Following the outbreak of the war, the duty of acting as Custodian of Enemy Property for England and Wales was imposed upon the Public Trustee by the Trading with the Enemy Act.² The Act provides:—

¹ Public Trustee Act, 1906 (6 Edw. VII, Ch. 55).

² 5 Geo. V Ch. 12. Trading with the Enemy Amendment Act and Proclamation of September 9, 1914.

That all sums payable to enemies by way of interest, dividends, or share of profits, shall be paid over to the Custodian, to be held by him in such manner as His Majesty may by Order in Council direct.

That firms with enemy partners, and companies with enemy shareholders, shall make to the Custodian a return showing the capital belonging to such enemy partners or shareholders.

That persons who hold, or manage property on account of enemies, shall make a return of the same to the Custodian.

Subsequent acts greatly increased the scope and power given by the original legislation and included a system of voluntary returns, subsequently made compulsory, by which to ascertain as nearly as possible a comparative state of account as between Great Britain and each of the enemy countries and to obtain information which might be made available for creditors desiring to take joint action for the preservation of their respective interests. The total enemy property including debts as notified or paid proved to be greatly in excess of the British property, including debts, in enemy countries, as estimated on the basis of the voluntary registration.¹ The total number of returns made to the Public Trustee as Custodian under the Trading with the Enemy Acts amounted on June 30, 1918, to approximately 89,000.

In addition to the regular business of the Public Trustee Office, applications from 7,979 intending Testators, requesting that the Public Trustee should act as Executor or Trustee, disclose a possible future business of an estimated value of £111,790,427.

The success of the Public Trustee Office has not prevented the exercise of trust functions in Great Britain by a number of the large banks, under amendments to their articles of association.

There are now Public Trustees in New South Wales, Queensland (Public Curator), South Australia and Tasmania. The assumption of trust functions by the Government in New Zealand, the Australian states and Great Britain indicates a radical line of development,² but one which is not likely to become a permanent policy in the United States—in spite of the success of the Alien Property Custodian during the great war.

¹ Eighth General Report of the Public Trustee. 1916. p. 17.

² "Trustee Companies," Robert C. Nesbitt, London.

CHAPTER II

ORGANIZING A TRUST COMPANY

CHARTER AND CAPITAL

TRUST companies are organized under special acts of legislature, or under general corporation laws of the various states. Most of the older companies were organized under special acts, and as their business grew and developed, further special acts of legislature, in the form of supplements to the original charters, granted them additional powers to provide for altered conditions.¹

Although there is still no uniformity of practice, in many of the states trust companies are organized under general corporation laws. In the states where no such laws exist, trust companies are still incorporated by special act of legislature; and in a few states there is a choice of either method.

Owing to the wide powers of trust companies, these organizations often prove profitable where a state or national bank could not succeed. Before organization is decided upon, the promoters of a company should satisfy themselves that enough business can be secured to make the institution a success. In eras of great commercial prosperity, the possibilities of securing profitable business in dull times should be carefully weighed. The amount of capital having been fixed, a preliminary organization is effected and the necessary legal formalities are complied with. These formalities vary so much in the different states that it is impossible to give a general description of the process. The main features of the law in New York, Pennsylvania, Massachusetts, Illinois and California will here be referred to, as in these states the trust company idea has found its fullest development.

The general trust company law of New York provides that seven or more persons may form such a company. They are required to

¹ See Trust Company Law, by John H. Sears.

execute and acknowledge an organization certificate in duplicate setting forth the name, location, amount of capital and number of shares, name and residence of each incorporator and the term of existence, which may be perpetual, together with a declaration that each member of the corporation will accept the responsibility and faithfully discharge the duties of a director therein if elected. The minimum capital required varies from \$100,000 in cities or towns having a population of not over 25,000, to \$500,000 in cities and towns having a population of over 250,000. Notice of intention to organize must be advertised for four weeks and a copy sent to every other trust company doing business in the same city, at least fifteen days before filing the certificate. Proof that this requirement has been complied with must be filed, together with one of the organization certificates, with the state superintendent of banks, the other organization certificate being filed with the clerk of the county in which the company proposes to do business, within sixty days after being acknowledged by the incorporators. The state superintendent of banks has full authority to refuse to authorize such a company to organize or commence business if in his judgment the new organization is not needed, or if those named in the certificate are not in his judgment fit persons to conduct such a business or to command the confidence of the community. This authority is apparently not a dead letter, but seems frequently to have been exercised.

When the superintendent is satisfied that the form of the certificate is correct and that all statutory requirements have been complied with, including the full payment in cash of the capital, a certificate is issued in triplicate by him authorizing the company to commence business, one of which certificates is delivered to the trust company and the others are filed with and recorded by the superintendent and the county clerk, respectively, together with the original certificates of organization previously filed with them. Before active business may be entered upon, a list of the stockholders with their addresses must be filed and the required deposit of securities must be made with the superintendent of banks.

In Pennsylvania, the older trust companies were all incorporated by special acts of legislature. New organizations are chartered under the general corporation laws of the state. The older companies, by

accepting the provisions of the general corporation laws, are permitted to take advantage of the various powers conferred by these statutes. Under the general corporation act and its supplements a company may be formed by the voluntary association of three or more persons. The charter or articles of incorporation must be subscribed by two or more persons, at least one of whom must be a citizen of Pennsylvania. This document must set forth the name of the corporation, the purpose for which it is formed, the place where its business is to be transacted, the term for which it is to exist, the names and residences of the subscribers and the number of shares subscribed by each, the number of the directors and the names and residences of those who are chosen for the first year; also the amount of capital stock and the number and par value of the shares. It must further set forth that ten per cent. of the capital stock has been paid in cash to the treasurer of the intended corporation, and also state the name and address of such treasurer. It must be acknowledged before the recorder of deeds of the county in which its chief operations are to be carried on or its principal office is located, or before a notary public of the commonwealth or a justice of the peace, and be accompanied by an affidavit as to the truth of the statements contained in it. Notice of intention to apply for a charter must be advertised in the proper county for three weeks. The certificate of incorporation accompanied by proof of publication of such notice is then presented to the governor and a bonus of one-third of one per cent. of the amount of capital stock the company is authorized to have, is paid to the state treasurer. If upon examination the governor finds the certificate of incorporation to be in proper form and in accordance with the provisions of the law, he indorses his approval thereon and directs that letters patent be issued incorporating the subscribers and their associates and successors into a corporation by the name chosen. The certificate is recorded in the office of the secretary of the commonwealth and also in the office of the recorder of deeds in and for the county where the business is to be carried on. This completes the process of incorporation, but before the various branches of business authorized can be commenced such corporation is required to have a paid-up capital of \$125,000, an affidavit of which fact, made by the treasurer, must be filed with

the secretary of the commonwealth, and the names of the company's officers must be filed in the office of the auditor general.¹

The Massachusetts Act of 1904 relative to the incorporation and to the reserve funds of trust companies provides that fifteen or more persons who associate themselves by an agreement in writing for the purpose of forming a trust company, may, upon compliance with the requirements set forth in the act, become such a corporation subject to the general laws relating to such corporations. The agreement must state the name of the company, the purpose for which it is formed, its location, amount of capital stock, and number of shares. Each subscriber is required to state his address and the number of shares he takes. A notice of the intention to form such a trust company is given to a board of commissioners, and advertised for three weeks in the town in which it is proposed to establish the company. Within thirty days after the first publication of the notice, application is made for a certificate that the public convenience and advantage will be promoted by the establishment of such a trust company. The board has power to refuse the certificate, in which case the application can be renewed after one year. The law further provides for the details connected with the preliminary organization of the company and for submitting articles and records of organization. After approval, the articles are filed with the secretary of the commonwealth, who, upon payment of the requisite fee, issues a certificate of incorporation. The capital stock cannot be less than \$200,000, except in the smaller cities and towns, the shares to be \$100 each. No stock can be issued until the par value of such shares has been actually paid in cash. After the entire stock has been issued, a list of the stockholders, with their addresses and holdings, is filed with the board of commissioners, who, after verification of the facts as reported and proof that all the legal formalities have been complied with, issue a certificate authorizing the company to commence business.

Massachusetts was the first state to require the trust companies to carry a fixed reserve to secure deposits. This reserve must equal

¹ An act was passed on July 17, 1919, pamphlet law, p. 1032, whereby State Banks in Pennsylvania having a capital stock at least equal to the capital stock which Trust Companies are required to have, are given rights similar to those exercised by Trust Companies.

fifteen per cent. of the aggregate amount of deposits exclusive of savings and time deposits, except in Boston where the reserve must be twenty per cent.¹ Two-fifths of the reserve must be in money and currency, bonds of the Commonwealth of Massachusetts and United States bonds or certificates of indebtedness, at least one-half of such two-fifths being money and currency; the three-fifths remainder may be on deposit with trust companies in Boston authorized to act as reserve agents, or with national banks in Massachusetts, New York City, Philadelphia, Chicago or Albany, or with the Federal Reserve Bank of Boston, but not exceeding one-third of said remainder may be in bonds of the United States or the Commonwealth of Massachusetts, provided the money and currency, bonds of the Commonwealth of Massachusetts and bonds and certificates of indebtedness of the United States held by the company shall at all times equal five per cent. of all its time and demand deposits, exclusive of savings deposits. More stringent reserve requirements are provided for in the case of trust companies in Boston which act as reserve agents.² The provisions as to reserves apply to all trust companies, whether incorporated under the general laws of the state or by special act of legislature, except that a trust company which becomes a stockholder in a Federal Reserve Bank shall be subject instead to the provisions of the Federal Reserve Act relative to bank reserves.

In Illinois there is a general corporation act, an act concerning corporations with banking powers, and an act providing for and regulating the administration of trusts by trust companies. Trust companies organized under the general corporation act are debarred from carrying on a banking business. Corporations organized under the banking act have an imperfect power to accept and execute trusts, which power may be perfected by the lodging of a deposit with the auditor of public accounts in compliance with the provisions of the trust act. In the case of trust companies of the latter character, incorporation is effected by not less than three persons making an application to the state auditor for permission to organize, stating the place of business, the amount of capital, the name under which it is desired to organize, and the time for which the association or cor-

¹ Chap. 294, Acts of 1922, requires weekly reports. ² Chap. 520, Acts of 1908, Sec. 10.

poration shall continue. This statement shall be under seal and acknowledged before some officer authorized to take acknowledgments to deeds. Upon compliance with these requirements, permission is granted by the auditor to organize, provided there is no other association of the same name. The act requires that the capital stock shall be divided into shares of \$100 each, and provides for the opening of books of subscription to the capital stock, for organization by the subscribers and for the election of directors who are required to take an oath "of fealty to the association," with the pledge that they will not knowingly violate the provisions of the act. Lists of stockholders are given to the auditor and such other information as he may require. After organization and the full payment of capital stock, the auditor is required to make a thorough examination into the affairs of the association, and if fully satisfied he issues a certificate authorizing the commencement of business. Upon the recording of this certificate, incorporation is completed. The minimum capital required for such a company varies according to the population of the city, town, or village in which it is located,—from \$15,000 when the number of inhabitants does not exceed one thousand five hundred to \$200,000 in cities or towns with a population of fifty thousand or more. The deposit referred to above as required by the trust act is a deposit of \$200,000 in cities or towns of one hundred thousand inhabitants or more, and \$50,000 in cities or towns of less than one hundred thousand.

In California trust companies are formed under the general law relating to corporations. Three or more persons, a majority of whom must be residents of the state, prepare articles of incorporation setting forth the name of the company, its purposes, the principal place of business, its term of existence, not exceeding fifty years, the number of its directors and the names and addresses of the directors for the first year, its capitalization and the amount of stock actually subscribed. The articles of incorporation must be filed with the Secretary of State, but before any trust company can file such articles there must be attached a certificate of approval of the superintendent of banks. Upon filing the articles of incorporation the Secretary of State must issue a certificate that the original articles, containing the required statement of facts, have been filed in his office

and thereupon the trust company comes into existence, but it cannot transact any business until it files in the office of the Clerk of the County in which its principal business is to be transacted, a copy of its articles of incorporation certified by the Secretary of State.

Moreover, before it can proceed to do business, a trust company must file with the superintendent of banks certified copies of its articles of incorporation and by-laws and must secure a certificate of authority from him. The superintendent of banks makes an examination in order to ascertain whether the requisite capital and surplus are paid up in cash and whether the character and general fitness of the persons named as stockholders are such as to command the confidence of the community, and if not satisfied he may withhold the certificate. Before accepting any trust the company, if located in a city not exceeding 100,000 inhabitants, must have a paid-in cash capital of not less than \$100,000 and must deposit with the State Treasurer at least \$50,000 as security for the faithful performance of all private trusts accepted by it, and when it receives funds in excess of \$500,000 from court trusts it must deposit further security. If the company is located in a city of more than 100,000 inhabitants, it must have a paid-in cash capital of at least \$200,000 and its deposits with the State Treasurer must be at least \$100,000 in each case. The deposit is made in cash or in approved securities. A trust company thus qualified may be appointed by the court to act in any capacity in which an individual may act and may accept any trust permitted to be accepted by an individual. It must, however, segregate and set aside at least \$50,000 or at least \$100,000, dependent upon the size of the city in which it is located, of its paid-up capital as security for the faithful performance of all court trusts accepted by it, and must also segregate and set aside a similar amount as security for the faithful performance of all private trusts accepted by it. For the purposes of the statute all trusts permitted to be accepted by trust companies are classified as either court trusts or private trusts, the former comprising trusts in which the company acts under the appointment or order of any court, while other trusts are in general regarded as private trusts.

Court trusts are subject to the supervision of the superintendent of banks, while private trusts are not.

The charter granted by any state defines the scope and purpose of the business and the limits within which its functions are confined. The by-laws are framed and adopted by the stockholders, but must contain no provisions contrary to the laws of either state or nation. They vary according to the nature of the business and the opinions of those who draft them. They should be simple but comprehensive, and should govern matters not covered by charter provisions. They usually regulate the time and manner of holding elections, stockholders' and board meetings, define the duties of directors and officers, and provide for the general management of the business.

The board of directors, by resolution, also adopts rules, more particularly defining the duties of employees and regulating the details of office management which the officers are left to carry out. A corporate seal is adopted, which is affixed to documents executed by the company.

An easily accessible location should be chosen by the company, and the building should be planned with a view to the convenience of the customers as well as of the office force. In states where branch offices are allowed, these are generally used for the receipt and payment of deposits, and occasionally for making loans. They may also contain safe deposit vaults. Sometimes they are built in a shopping district or in the suburbs, in order to hold or increase business which might not be secured at the main office.

The original shares of stock are often issued at a premium, in order to provide a surplus fund from the start. The amount of capital should be ample to provide for the proper conduct of the business and insure financial stability. It should, however, not be so large that it cannot be profitably employed without taking questionable risks. A surplus fund should be accumulated out of the undivided profits, before any distribution of dividends is made to the stockholders,—otherwise, an unexpected loss may impair the capital and lead to disastrous results.

As business grows and develops uses for additional capital, it is not unusual to increase the amount of capital stock, and offer the

new shares to the stockholders either at their par value or at a figure in excess thereof but somewhat lower than the market value of the old stock, the amount received above the par value being used to increase the surplus fund.

When the stock of the company is "listed" on the local stock exchange, the rules of the exchange have to be complied with, as to statements of condition, declaration of dividends, transfers and registration of stock, the form of the stock certificates, and various details.

The capital stock of trust companies is more or less inactive in the market, and, when the business is successful, but small amounts are offered for sale. The larger part of such offerings consists of the holdings of estates in the course of settlement. The shares are moreover often high-priced, selling, it may be, for many times their par value and at a figure which gives a low return on the investment. The result is a rather limited market for this type of investment, so that in spite of the elimination of the speculative value attaching to securities which are readily bought and sold and of which there is always an available supply, fluctuation in the price of trust company shares may be induced by buying or selling orders of even moderate amount. It therefore becomes important to consider what effect such variation in price may have on the business of the company. It is notorious that the public buys on a rising market and sells on a falling one. As fickle rumor, combined with a drop in the value of its shares, may adversely affect the clientele of a trust company, it is to the best interest of the corporation that its shares should sell at as nearly uniform a figure as possible, with a tendency to rise gradually with increase in business and profits. The ideal condition is naturally that of a profitable business whose shares are always in demand, so that the floating supply can be left to take care of itself.

To lessen the danger from temptation to "support the stock" by buying shares offered for sale but for which there are no bidders, in some states restrictions have been imposed by statute prohibiting trust companies from making loans on their own shares. The funds of a trust company should never, directly or indirectly, be used for this purpose, whether there be legal restrictions in the way or not.

It is, however, perfectly proper for those who have an intimate knowledge of the business and a belief in its future, not only to employ profitably their idle funds, but to aid materially the status of the company by purchasing such shares as come upon the market, for which ready purchasers cannot be found.

As trust company shares have an intrinsic value and also represent an intangible but none the less real "good-will," they are — when the company is doing a legitimate and growing business — an attractive form of investment. Trust company shares, the country over, have returned handsome profits to their owners, and the proportion of failures to the total amount invested in these corporations has been exceedingly small.

STOCKHOLDERS

Many life and fire insurance companies and savings institutions are organized on a mutual basis. Trust companies and banks are organized as stock companies, but some trust companies which still carry on life insurance keep up a mutual organization in that department. In the mutual insurance company, a number of individuals combine for the purpose of collectively transacting business which it would be impracticable to transact individually. The general law of averages enables them to take many risks safely at low cost when singly the business would be hazardous in the extreme. In the same way, the small savings of many depositors can be safely and profitably employed where the individual balance cannot be put to profitable use and is in constant risk of loss when kept in the proverbial stocking or tea-pot. Purely mutual companies have no capital stock, and the profits are divided among the policy-holders or depositors.

In organizing a trust company, the promoters and original subscribers provide the necessary capital for the conduct of the business, becoming the owners of stock in amounts representing their respective subscriptions, and thereby entitled to receive a return on the capital so invested, in the form of dividends paid out of the profits of the business. The capital stock of a trust company is usually divided into shares of the par value of either \$50 or \$100 each.

The stockholders, as the owners or proprietors, being often many in number and widely scattered, delegate the management of the company's business to a board of directors as their representatives. The directors in turn choose skilled officers to direct the details of the business, confining their attention as a board to the control of its general policy.

The stockholder has definite legal rights and privileges. He attends and votes at stockholders' meetings, and the vote of the majority is the final authority to which both president and directors must bow.

The stockholders meet annually to receive reports and choose directors, and in many companies it is customary on these occasions to provide a luncheon, which gives an opportunity for personal contact and social intercourse between the officers and directors and those whose interests they represent. The routine of the annual meeting generally consists in the choice of two stockholders to act as chairman and secretary respectively, the reading of the minutes of the last meeting and of reports covering the year's business, and the election of directors. Tellers are chosen who conduct the election, by ballot, and report the result to the meeting.

Each share of stock held entitles its owner to one vote, and as voting by proxy is usually permitted, a large stock vote is often recorded when there are but few persons present. The regulations as to voting by proxy are as a rule fixed by statute, but occasionally among older companies one finds curious by-law provisions, which look to preventing an overthrow of the established order. One such provision is that an individual shall not vote on the proxy of more than one stockholder. The period for which a proxy holds good is usually limited.

In times of prosperity the stockholders' meetings are likely to be cut-and-dried affairs, all the details having been prearranged, even to the perfunctory resolution of thanks to the officers and directors; but this is not always the case.

Sometimes it is wise to provide beforehand against attempts of stockholders to make trouble, for the reputation of a financial corporation is easily hurt by the knowledge on the part of the public that its administration is not harmonious. Nothing so arouses a

stockholder's suspicions as an impression that information is being withheld which may have an important bearing on the business of the company. The stockholders should always be given frank and full statements of condition, and should never be allowed to feel that information to which they are entitled is kept from them. There is a point beyond which secrecy becomes an injustice if not a crime. It is a good rule not only to give all information which is required by law to be made public, but as much more as can safely be given without breaking confidences on the one hand or disclosing facts which could be made use of by competitors on the other. While it is wise to show the directors the gross amount of both gains and losses, it may, however, be poor policy to show stockholders more than the net result, as some of them might not understand that a banking business, however well managed, cannot avoid an occasional loss, and to give them all the details in such a case might result in an entirely unjustified lack of confidence.

Owing to the nature of a trust company's business, it is a decided advantage to have stockholders of solid and responsible character, who hold the shares as a permanent investment and not for speculative purposes. The stockholders, on their side, should realize that it is for their direct interest to send business to the company, and by cordial coöperation with directors and officers to increase the prosperity of the corporation.

Under the National Banking Act the stockholders of national banks are liable to the extent of the amount of their stock therein at the par value thereof, in addition to the amount invested in their shares. Laws vary as to state banks and trust companies. The charters of the older companies incorporated by special acts of legislature usually provided that the shareholders were not individually liable for debts of the corporation beyond the amount required, if any, to make their stock full paid. This fact has made such shares an attractive form of investment to many conservative people who were unwilling to hold bank shares carrying a double liability. There is, however, at present a tendency in some quarters to require a liability over the amount invested, in the case of new trust companies organized under general corporation laws, and in some states, such as Massachusetts, an older company operating

under a special charter can only obtain the advantages of the general law by agreeing to accept the corresponding conditions, including often that of increased liability of shareholders. This has deterred certain of the older companies from coming under the later laws, on the ground that the advantages to be obtained were not sufficient to compensate for the added liability which would have to be assumed by the shareholders.

BOARD OF DIRECTORS

The success of any corporation, industrial or financial, depends in great measure on the character, judgment, and ability of those who direct its affairs.

The detail and routine business of a trust company is managed by the paid executive officers, while the larger questions of policy are determined by the directors, among whom one or more of the executive officers are found. The first qualification of a director, usually required by the by-laws, if not by statute, is that he be a holder of stock, but as an able man of moderate means can often render important service, the prescribed number of shares is generally small. Indeed, a directorship is frequently offered to a desirable candidate who buys the few necessary shares on or before his election to the board.

While the larger stockholders generally have representation on the board in proportion to their holdings, not many of them act as directors, both because the board is composed of relatively few as compared with the total number of shareholders, and because the capitalist is often averse to assuming duties which can be performed to his satisfaction by an appointee sure to conserve his interests. It is common to hear that a director represents certain large interests, and in this case even though his own holdings of stock may be merely nominal, his voice carries great weight in the management of the corporation.

As the director is primarily responsible for the broader questions of policy, it is essential that for this important position men should be chosen who are of known probity and bear an unsullied name and character, who stand for honorable dealing, for progress, and

who in private life and business have demonstrated their capacity for success.

The list of directors is apt to be scrutinized with as much care as the balance sheet by the prospective customer or purchaser of stock. It is therefore most important that men whose character cannot stand the light of publicity, or those who are narrow or unscrupulous, should never be permitted to become directors. When a man has failed in the conduct of his personal affairs, he should be given a directorship only after the most serious consideration of the circumstances responsible for past disasters. "Their fathers' sons," too, are at times questionable assets on a board of directors, and a sentimental desire to perpetuate the name and family connection should never be allowed to influence a choice unless there are other qualifications for the position.

In states where the number of the directors may be fixed by the by-laws of the corporation, it can, within prescribed legal limits, be increased or decreased without much difficulty. In this way the services of a desirable man may often be secured even though there has previously been no vacancy. When a small company is absorbed by a larger one, it is not uncommon to enlarge considerably the board of the consolidated institution, so as to retain desirable members of the board of the smaller concern. The largest companies usually have a considerable number of directors, in order to give the institution a proper standing in the eyes of the community, and to secure business through as many channels as possible.

If a trust company has a small board, it is possible and indeed necessary that each member should keep closely in touch with its business. In a large board it is not practicable for all the members to give attention to many matters of detail. The committee system is a natural result, and it is the usual practice in large boards to delegate duties to committees, which in turn report to the board itself. A large board, using the reports of committees as a guide to intelligent action on the various matters brought before it, is a satisfactory organization for doing business, and safeguarding and promoting the affairs of the company.

When, however, as is too often the case, the functions of the board are delegated to a small executive committee composed of the

president and two or three other members, the system can become very dangerous. There are to-day many directors who, although willing and anxious to do their share of work, find themselves almost in the position of outsiders, their only duties, apparently, being to lend the use of their names, and attend cut-and-dried monthly meetings of the board at which no insight into the affairs of the company is given them and they are only called on to ratify the acts of their colleagues on the "inside."

The by-laws of nearly all financial institutions give their boards the right to fill vacancies in their number. The very general adherence to this principle seems to indicate its wisdom, for continuity in policy is essential in the management of financial affairs, and too radical changes are to be avoided. Moreover, the members of the board are, or ought to be, either those most heavily interested in the corporation, or their especially chosen representatives, and consequently the best judges of the qualifications of their associates. The tendency of boards of directors to become self-perpetuating and autocratic bodies is held in check by the fact that the final control is always in the hands of a majority of the shareholders.

The most important duty of the board is to control the general policy of the company. How to meet competition, to secure new business, to hold on to that already in hand, when to branch out into new fields, to feel the pulse of the public, and to gauge the outlook for the future, these and a thousand other problems have to be met with sound judgment and a wide knowledge of affairs. In the selection of the executive officers, the directors exercise an equally important function. To the executive officers the director can lend the greatest assistance in securing new business. His commanding position in the commercial and financial world should give many opportunities for directing to his company business which, once secured, efficient officers should have but little difficulty in holding. The rapid growth of many of the more recently established trust companies is a direct outcome of the united personal efforts of the directors and officers, and shows what can be done even in the face of keen competition. If the director is to keep in close touch with the affairs of the company, he must be conscientious in his attendance on board and committee meetings, and, no matter

what confidence he may feel in officers and fellow-directors, must take his share of the responsibility. The absentee director is likely to be more of a hindrance than a help on the rare occasions when he does put in an appearance. Where it is the practice to have audits and examinations of assets made by members of the board, it is the duty of every director to do his part, not only to obtain familiarity with the details of the business, but for the protection of all concerned. As a certain number of directors are usually required by law to attest the correctness of statements of condition, it is really essential for the director to have personal knowledge of the truth of these reports.

The direct returns from the position of director are few, as the post is an unsalaried one. The small gold pieces received in some companies as an honorarium for attending board meetings and periodical examinations of assets are usually the only direct payments, and these are given not so much in return for service rendered as to insure a quorum—an admission that human nature in the person of the director is much the same as in the least of those who are dependent on him.

The indirect returns to the director of a trust company are considerable. The intimate relation which he bears to the business is often of great value to him, and the knowledge of people and affairs which he thus gains can legitimately aid in the management of his personal concerns. The danger is that, by the unscrupulous, such a position of honor, trust, and responsibility may easily be perverted to selfish ends. The director should never fail to realize that, as the representative of the whole body of stockholders, his first duty is to protect their interests. If as an individual he transacts business with the company on whose board he sits, he must always remember that when acting in one capacity he is incompetent to advise in the other. No director should be allowed to do business with the company merely because he is a director, or for any other reason than that it is to the company's best interest to deal with him. He must be careful, too, not to abuse his authority by thoughtlessly encouraging subordinates to break rules for his convenience and so interfere with the discipline of the office.

Whether a single individual should occupy the position of director

in more than one company doing the same business in the same city or town is often a serious question.¹ Undoubtedly, the director of a trust company is of most value when he has numerous interests of other sorts. It is, however, difficult to see how he can be connected with competing organizations, without at times promoting the interests of one at the expense of the other.

INTERLOCKING DIRECTORATES

"Interlocking directorates" figured largely in the discussion leading up to the passage of the Federal Reserve Act.

Important duties relative to the determination of the eligibility of member bank directors were imposed upon the Federal Reserve Board by the amendment to the Clayton Act, known as the Kern amendment, which became a law on May 15, 1916. This legislation was intended to give individuals greater latitude than was allowed by the original act in accepting and holding bank directorships. It authorized such individuals, when directors of member banks, to act also as officers, directors, or employees of not more than two other banks, banking associations, or trust companies, when organized under the laws of the United States or any state, "if such other bank, banking association, or trust company is not in substantial competition with such member bank." It was, however, required that the consent of the Federal Reserve Board be obtained as a basis for the continuance of such relations with other banks. This placed upon the Board, as a condition necessarily precedent to the granting or withholding of its consent in such cases, the duty of ascertaining whether the banks in which an individual might seek to hold directorships were or were not in "substantial competition" with the member bank of which such individual was also a director. The Clayton Act became effective on October 15, 1915. During the year 1916 the Board considered in all 1,359 applications, of which 1,215 were granted and 144 refused. In a large number of other cases the directors affected recognized that substantial competition did unquestionably exist, and so withdrew voluntarily

¹ See *Other People's Money*, by Louis D. Brandeis, p. 63 et seq.

from one or more directorates, thereby bringing themselves into compliance with the Act.

Some difficulty was found in applying the provisions of the Clayton Act which prohibit a private banker from holding a directorship in a member bank. Compliance with this prohibition necessarily involved a definition of the term "private banker," and the Board accordingly published a definition of the term for use in the administration of the Act. The term "private banker" was interpreted to include partnerships or individuals engaged in the banking business, as the term is generally understood, including those partnerships or individuals which solicit or receive deposits subject to check, which do a foreign exchange, acceptance, loan, or discount business, or which purchase and sell or distribute issues of securities by which capital is furnished for business or public enterprise. The term as thus interpreted did not include the ordinary stock, note, or commodity broker unless a substantial proportion of his profits came from banking activities, nor did it include partnerships or individuals using only their own funds in making loans or investments.

In a number of cases difficulty was also encountered in determining the exact scope of the term "substantial competition" and particularly whether such competition must be regarded as limited in area. It was found that some large banks situated in cities or places far distant from one another, while not in competition in their respective locations, yet might be held to compete to a greater or less degree in common territory. While in some such instances it was thought best to grant the applications of directors who were desirous of serving on the boards of such banks, it was indicated in each case that the consent accorded to them was tentative only and that further investigation would be undertaken for the purpose of arriving at a final conclusion. Indeed, the Board's work with reference to the application of the Kern amendment must be regarded as a continuing operation which can never be definitely finished. New facts or evidence bearing upon the business of given institutions may at any time develop, or the natural growth of their business may bring them into substantial competition, although they were not found to be so in the first instance. It will therefore be neces-

sary from time to time to revise decisions already made. New conditions may develop which will necessitate the revocation of permission already granted, in certain cases, in order to avoid subjecting some directors to a rule different from that applied to others.

CHAPTER III

MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

INTRODUCTION

PRIOR to the year 1913, there was no legal basis for the performance of trust company functions under Federal oversight or with Federal Charter. On December 23, 1913, Congress passed the Federal Reserve Act. This measure made two important changes in the situation.

It authorized national banks under specified conditions and restrictions to assume fiduciary functions and thus to create trust departments.

It authorized trust companies to become members of the Federal Reserve system thus bringing them, in a sense, under Federal supervision and control while opening to them new fields of activity in several directions.

Those who are desirous of undertaking trust company functions are to-day able to choose whether to conduct their business under state or federal law, although a decision in favor of the latter plan necessarily involves the organization of a national bank and compliance with the terms of the national banking act. Such a decision is of course made when the problem of organization is first taken up and its elements need not be considered here. It is clear, however, that every trust company must consider as an important business problem the question of membership in the Federal Reserve system, while every national bank must consider the question of applying for and exercising fiduciary powers as permitted under the terms of the Federal Reserve Act.

MEMBERSHIP IN RESERVE SYSTEM

When the Federal Reserve Act was first projected it was not intended to include in the system banks or companies organized under

non-national charters. Many state bankers and trust company managers, however, promptly perceived the advantages to accrue from the new system, and there was an immediate and strong demand for membership provisions applicable to their companies. The Act as adopted, therefore, made provision for admitting to membership state banks and trust companies upon terms and conditions to be prescribed by the Federal Reserve Board. Not a few applications for membership were at once filed, but influential trust company leaders feared that the provisions for getting out of the system were not sufficiently clear,—that, while it might be easy enough to enter, it might be difficult to withdraw. To relieve this fear the Federal Reserve Board promptly adopted liberal regulations governing application for membership and withdrawal of state institutions. Yet both state banks and trust companies entered the system very slowly. Accordingly Congress determined to amend the Act and on June 21, 1917, an Act was passed whereby the regulations adopted by the Board were incorporated into the statute and were thus given the force of law. The United States had become a belligerent on the side of the Allies in the war against Germany at about the same time that the amendment to the Reserve Act was taken under advisement. The impulse was therefore strong to enter the system out of considerations of patriotism and desire to present a united financial front to the enemy during the struggle. Coupled with patriotic considerations, the now highly favorable terms of membership and the natural wish to secure the protection of the Federal Reserve Bank organization brought many state banks and trust companies into the system. The total number of such state institutions on December 31, 1924, was 1,544 among which were some of the strongest and largest banks and trust companies in the country.

APPLICATION

The Federal Reserve Board under the provisions of the law has developed a detailed method of procedure in passing upon applications for admission to the system.

The only indispensable requirements laid down in the law as conditions of the membership of a trust company in the Federal Reserve system are that it shall be in sound condition and shall

possess a paid up unimpaired capital adequate to entitle it to become a national bank in the place where it is situated. Specifically this latter requirement is as follows:

Places with population up to 3,000	\$ 25,000
Places with population over 3,000 but not over 6,000	50,000
Places with population over 6,000 but not over 50,000	100,000
Places with population over 50,000	200,000

The requirement that the institution be in sound condition has been applied by the Federal Reserve Board in a clause of the regulations governing admission which states that the Board will consider in connection with each prospective member, its financial condition, the general character of its management, whether or not the corporate powers exercised by it are consistent with the purposes of the Federal Reserve Act. It is not true as supposed by many that membership in the system implies the surrender of charter powers or the acceptance of new and rigid limitations upon business. Under the terms of the Act, state members are members in the full sense of the word, and hence are naturally subject to the regulations and restrictions which affect all members, as well as to the special regulations which may be laid down by the Board. As a matter of fact, however, the Board in admitting trust companies has seldom or never required any material changes in the scope of their business, although in various cases where very broad powers were being exercised, it has required the applicant to undertake that it would not in the future seek to exercise any new or additional functions without first obtaining the permission of the Federal Reserve Board. It may be broadly stated that the only conditions directly operating to keep a trust company from joining the system would be too limited a capital, poor financial condition, incompetent or doubtful management.¹ This of course does not mean that companies which fail to join may not have other and sound reasons for their decision. It does mean that except where the company's capital is below \$25,000, there is no necessity for remaining outside the system if the managers of an institution wish to enter it.² The question of admitting the very small institutions has been considered, but thus far opinion has not been favorable.

¹ Or an unsatisfactory policy as to branches.

² But see special provisions of Act of March 4, 1923, relative to increase of capital by small banks.

The trust company which has determined to enter the Federal Reserve system first signifies its intention through a resolution of its Board of Directors in somewhat the following form:

"WHEREAS, it is the sense of this meeting that application should be made on behalf of this corporation for stock in the Federal Reserve Bank of, in accordance with the provisions of the Federal Reserve Act and the regulations of the Federal Reserve Board made in pursuance thereof;

"AND WHEREAS, six per cent. of the paid-up capital and surplus of this corporation amounts to \$. ;

"NOW, THEREFORE, BE IT RESOLVED, That the president or vice president and the cashier or secretary of this corporation be and they are hereby authorized, empowered, and directed to make application for and to subscribe to..... shares, of a par value of \$100 each, of the capital stock of the Federal Reserve Bank of, to pay for such stock in accordance with the provisions of the Federal Reserve Act, and to agree for and in behalf of this corporation to comply, upon receipt of the approval of this application by the Federal Reserve Board and its acceptance by this corporation, with all the requirements of the Federal Reserve Act and the regulations of the Federal Reserve Board made in pursuance thereof which are applicable to state banks and trust companies which become members of a Federal Reserve Bank."

Correspondence with the Federal Reserve Agent (Chairman of the Board of Directors of the Federal Reserve Bank) of the district may precede or follow the adoption of this resolution and results in furnishing the applicant company with a form designed to describe the applicant. The Federal Reserve Agent may call for information on additional points if circumstances seem to require, but ordinarily the company will merely fill out the application form, and prepare a certified copy of its statement of condition on a recent date, and a copy of its charter and articles of incorporation with all amendments up to date, and transmit the papers to the Federal Reserve Agent. The latter officer has meantime probably made inquiry as to the general standing of the company and has usually * requested the state banking superintendent or commissioner for copies of the last report of examination of the company. Having satisfied himself by a study of the papers that the applicant company will probably be a desirable member, he may next institute an examination of the concern. A report of such examination together with the papers already described is then forwarded to the Federal

Reserve Board for action. The Board refers the documents to its staff of examination for study and upon receiving the examiner's report either accepts or rejects the application.

REJECTION OF APPLICATIONS

A trust company occasionally hesitates to apply for membership fearing that through technical defects in the application or unavoidable conditions attendant upon its business it may be rejected. It is rightly felt that such a rejection if known or surmised by competitors of the company might hurt its standing or leave a bad record with dangerous possibilities for the future. There is, however, little or no basis for such fears. Long before the time comes for formal action by the Board the applicant will have been advised of reasons (if such exist) for considering its admission impossible. In many cases such obstacles are easily overcome, and the Federal Reserve Agent points out the means for eliminating them. If they are practically ineradicable the company will have ascertained that such is the case before it has gone far. Even before its Board has authorized application the trust company has usually been able to get a preliminary informal opinion which is in nearly all cases borne out by subsequent action. Should a company's application pass the scrutiny of the Federal Reserve Agent and receive his favorable recommendation, but be looked upon with doubt or disfavor by the Reserve Board, it is customary to send the applicant an informal letter suggesting that the application be withdrawn pending the introduction of changes along lines indicated. If the company feels that compliance is too onerous or expensive it can request suspension of action or withdraw its application entirely.

ADMISSION TO MEMBERSHIP

Favorable action by the Reserve Board on an application for membership is conditioned as follows:

(1) Except with the permission of the Federal Reserve Board, such bank or trust company shall not cause or permit any change to be made in the general character of its assets or in the scope of the functions exercised by it at the time of admission to membership, such as will tend to affect materially the standard maintained at the time of its admission to the Federal Reserve system and required as a condition of membership.

(2) Such bank or trust company shall at all times conduct its business and exercise its powers with due regard to the safety of its customers.

(3) Such bank or trust company shall not reduce its capital stock except with the permission of the Federal Reserve Board.

(4) Such bank or trust company shall not, except after applying for and receiving the permission of the Federal Reserve Board, establish any branch, agency, or additional office.

(5) Such bank or trust company, except after applying for and receiving the permission of the Federal Reserve Board, shall not consolidate with or absorb or purchase the assets of any other bank or branch bank for the purpose of operating such bank or branch bank as a branch of the applying bank; nor directly or indirectly, through affiliated corporations or otherwise, acquire an interest in another bank in excess of 20 per cent of the capital stock of such other bank; nor directly or indirectly promote the establishment of any new bank for the purpose of acquiring such an interest in it; nor make any arrangement to acquire such an interest.

(6) Such bank or trust company shall reduce to, and maintain within, the limits prescribed by the laws of the State in which it is located, any loan which may be in excess of such limits.

(7) Such bank or trust company shall reduce to an amount equal to 10 per cent of its capital and surplus all balances in excess thereof, if any, which are carried with banks or trust companies which are not members of the Federal Reserve system, and shall at all times maintain such balances within such limits.

(8) Such bank or trust company may accept drafts and bills of exchange drawn upon it of any character permitted by the laws of the State of its incorporation; but the aggregate amount of all acceptances outstanding at any one time shall not exceed the limitations imposed by section 13 of the Federal Reserve Act, that is, the aggregate amount of acceptances outstanding at any one time which are drawn for the purpose of furnishing dollar exchange in countries specified by the Federal Reserve Board shall not exceed 50 per cent of its capital and surplus, and the aggregate amount of all other acceptances, whether domestic or foreign, outstanding at any one time shall not exceed 50 per cent of its capital and surplus, except that the Federal Reserve Board, upon the application of such bank or trust company, may increase this limit from 50 per cent to 100 per cent of its capital and surplus: Provided, however, that in no event shall the aggregate amount of domestic acceptances outstanding at any one time exceed 50 per cent of the capital and surplus of such bank or trust company.

(9) The board of directors of said bank or trust company shall adopt a resolution authorizing the interchange of reports and information between the Federal Reserve Bank of the district in which such bank or trust company is located and the banking authorities of the State in which such bank is located.

COMPLIANCE WITH RESERVE ACT

First entrance upon active membership involves assumption of the same duties that devolve upon all members and are as follows:

Subscription to stock.—The new member subscribes to the stock of the Federal Reserve Bank of its district in an amount equal to 6% of its own capital stock and surplus payment to be made at par value plus one-half of one per cent. per month from the period of the last dividend paid by the Reserve Bank. Should the member subsequently increase or decrease its stock or surplus it makes a corresponding change in its holding of the stock of the Federal Reserve Bank.

Payment of subscription.—One-half, or three per cent., of this subscription to the stock of the Reserve Bank is payable at once in cash or acceptable exchange, the other half remaining subject to call.

Simultaneously with the payment of the subscription to capital stock, the new member must establish (and thereafter maintain) with the Reserve Bank a "reserve balance" payable in cash or acceptable exchange as stated on page 117; and computed as explained on page 166.

The company is now a full member in regular standing.

PRIVILEGES OF MEMBERSHIP

The member of the Federal Reserve system enjoys certain privileges which have been the primary cause for entering it and which may now be stated in detail:

Power to rediscount.—The member may at any time submit "eligible paper"¹ for rediscount. Proceeds of such discounts are carried to its credit on the books of the Reserve Bank.

Authority to use transfer system.—The "reserve account" of the member is not a "dead" or inactive account, but can and should be regularly used and drawn upon. The "required reserve" is merely the equivalent of the "minimum balance" required by many banks of their customers. Regular deposits in the Reserve Bank should be made by the member and when collected the proceeds are carried to its credit and offset checks drawn on its account. The reserve account thus serves as a medium for collections and transfers.

Privilege of calling for service.—The Federal Reserve Board has prescribed a long list of functions which may be performed by Re-

¹ See page 152.

serve Banks on behalf of their members and for the exercise of which the members are therefore entitled to call. Among these are the services of purchasing securities, "checking" commercial paper and otherwise performing the duties of a "correspondent." Not all Reserve Banks have undertaken these functions on an extensive scale, but their work in these directions may be expected to grow.

Receipt of dividends.—Every member bank is entitled to cumulative dividends upon its Reserve Bank stock at 6% per annum.

DUTIES AND OBLIGATIONS OF MEMBERSHIP

The chief duties and obligations of membership have already been made plain in connection with the terms and conditions of admission. The member must hold its investment in the stock of the Reserve Bank, and must maintain its reserve either by depositing or rediscounting. There are, however, certain other obligations which grow partly out of the provisions of law and partly out of regulation and custom, as follows:

Examinations.—Under the Federal Reserve Act the Reserve Bank or the Reserve Board may at any time order a special examination of a member. This, however, is unusual and the practice is to accept the returns of state banking departments acting either independently or in coöperation with Reserve system examiners.

Reports.—Three classes of reports must be made by member banks as follows:

Semi-annual report to the Reserve Bank of the district as to earnings and dividends, and special notification of each dividend declared.

Three reports each year on call of the Federal Reserve Board, the dates being usually identical with those named by state banking departments.

Report each week on reserve condition.

Penalty for deficiency of reserves.—Under the Federal Reserve Act a Federal Reserve Bank may impose upon members whose reserve accounts are below the required minimum both a basic and a progressive penalty for such deficiency, which they must meet. The basic penalty is prescribed by the Board and is at a rate equal to the

90 day discount rate plus 2%. The progressive penalty is from $\frac{1}{2}\%$ to 10%.

Free collection service.—The member must undertake to collect without charge to the Reserve Bank all local items sent it by the Reserve Bank.

LOSS OF MEMBERSHIP

A non-national member of a Federal Reserve Bank may return to its original status as a non-member or outside institution in any one of several ways. It may consolidate with another under a new charter, or it may be called upon by the Reserve Board to forfeit its membership because of failure to comply with law or regulation; or it may simply withdraw. In the latter event, it gives notice to the Board six months in advance, and in the ordinary course its stock is cancelled and it receives back an amount equal to its paid up subscription, plus one-half of one per cent. per month from the date of the latest Reserve Bank dividend (not exceeding book value) plus the net worth of its reserve account. Some small companies have already gone into and out of the Reserve system on or more times, as they felt that their interests seemed to dictate. The operation involves little or no difficulty or apparent loss of credit. It has thus far never been necessary to expel a member but some institutions which have withdrawn probably could not regain admission without further changes in their methods of their holding of paper. As in most organizations it is easier to remain a member than to withdraw and later regain membership.

TRUST POWERS OF NATIONAL BANKS

In the original draft of the Federal Reserve Act, following the conception of a purely commercial banking system, it was intended not to extend the powers of national banks beyond those required by commercial banking. When, however, it had been resolved to admit the trust companies to membership the logical consequence was the extension of fiduciary powers to the banks. In order to minimize opposition to the proposal and to give opportunity for experimentation, it was first provided that national banks might be grante

(upon application to the Federal Reserve Board) powers as trustee, executor, administrator and registrar of stocks and bonds in those states where such action on the part of national banks was not opposed to state or local law. This provision gave rise to much doubt and uncertainty, and eventually led to a decision of the Supreme Court of the United States in which it was definitely held that Congress had power to confer trust functions upon national banks if so disposed. Pursuant to this opinion an amendment to the Federal Reserve Act, passed September 26, 1918, gave the Board power, practically at its discretion, to grant fiduciary powers as it might see fit. It has consequently adopted the policy of making such grants to any sound and well-managed national bank that may make application for them. Up to the close of 1924 1,802 banks had been granted fiduciary powers.

METHOD OF MAKING APPLICATION

Any national bank which may desire to exercise fiduciary powers must transmit to the Federal Reserve Agent of the district a resolution adopted by its Board of Directors in practically the following form:

At a meeting of the Board of Directors of the
 of, duly called and held on the.....day of
 (City or town and State.)
, 19.... the following resolution was offered, seconded,
 and adopted:

"Whereas it is the sense of this meeting that application should be made on behalf of this Association to the Federal Reserve Board for a permit to act as

(Specify powers applied for.)

.....
 as provided in Section 11 (k) of the Federal Reserve Act, as amended by the act approved September 26, 1918,

"Now, therefore, be it resolved, that the president or vice president and the cashier or secretary of this Association be and they are hereby authorized, empowered, and directed to make application to the Federal Reserve Board for a permit giving to this Association the right to act as.....

(Specify powers applied for.)

.....
 or to exercise as many of these powers as the Federal Reserve Board may allow, under such rules and regulations as the Federal Reserve Board may prescribe."

I hereby certify that the foregoing is a true and correct copy of a resolution passed by the Board of Directors of this Association on the date specified, and that the foregoing statement correctly shows the condition of this bank as shown by its books on the date indicated.

.....
Secretary or Cashier,
of.....
 (Name of bank.) (City or town.)

NOTE.—Powers that may be applied for under the statute are trustee, executor, administrator, registrar of stocks and bonds, guardian of estates, assignee, receiver, committee of estates of lunatics, or any other fiduciary capacity in which State banks, trust companies, or other corporations which come into competition with national banks are permitted to act under the laws of the State in which the national bank is located.

The resolution thus filed is presented by the Reserve Agent to the Federal Reserve Board with or without recommendation and the Board after due investigation approves or rejects it. The investigation usually consists merely of an inspection of the latest report of examination of the applying bank and a reading of the opinion of the Federal Reserve Agent regarding it. The powers applied for are granted to practically any national bank that is not subject to criticism for errors of management or unsoundness. Before the passage of the amendment most of the investigation connected with such application was of a legal nature involving the study of state and local statutes to ascertain how far they might permit or refuse the exercise of the desired powers. With the clearing up of the legal complications this part of the investigation becomes largely *pro forma*. Possession of an unimpaired surplus equal to 20% of capital is usually required.

SHOULD TRUST COMPANIES APPLY?

The question whether trust companies should apply for membership in the Federal Reserve system has been the subject of lengthy and at times bitter discussion. Many of the strongest and most ably managed trust companies in the country are to-day members of the system and apparently expect to retain their membership. It may be questioned whether they would, at least thus early, have come into the system, had it not been for the European war and the influences resulting from that struggle. Now that all extraneous considerations growing out of war conditions have disappeared, the question of trust company membership becomes comparatively

simple. Treated as an ordinary business problem trust company membership is seen to be a matter depending entirely upon the scope and character of the business the trust company is doing or expects to undertake. The term trust company as applied in the United States to-day is of broad and vague significance and includes many types of institution. There is no single rule or canon of policy which can furnish a uniform guide for all these various types.

CHARACTER OF RESERVE SYSTEM

The Federal Reserve system is a commercial banking system, its purpose and function the maintenance of commercial banking soundness and liquidity. Its service is most directly and obviously rendered to those institutions which carry large lines of demand deposits and which therefore require as perfect reserve protection as can be devised. Accordingly the decision as to application for membership on the part of a trust company should be chiefly influenced by the extent to which the company expects to engage in commercial banking, lending on commercial paper, carrying demand deposits and, in general, performing banking functions in the narrower sense. There is thus far little service that the Reserve system can render to a trust company in connection with the exercise of its strictly fiduciary functions. If the company feels that the prestige of membership strengthens it with its constituents or confirms them in the belief that it is strong and stable, an application may be wise business policy. Such an application, however, must be regarded as a matter of advertising or of competition with other institutions. The reason for it does not lie in the nature of the trust company's business. Much of the pressure exerted upon the trust companies to apply for membership during the war was the result of hysteria or careless thinking. There was and is little foundation for the argument that the funds or "reserves" contributed by trust companies strengthen the system and so make membership a matter of public duty because they render the basis of banking stronger and safer for all. Trust companies habitually keep their cash funds with commercial banks, and since these have generally become members and place their cash with reserve banks,

the membership of the trust companies makes a stronger showing from the book-keeping or accounting standpoint but in no other way. Doubtless there are many trust company members which to-day would be as well off out of the system as in it, while the system would be as well off without as with them.

TRUST COMPANIES ON THE MARGIN

It is thus perfectly clear that some trust companies should, while others should not, become members of the Federal Reserve system. Whenever a trust company is to all intents and purposes a commercial banking institution or conducts an extensive banking department there is the same argument in behalf of membership that exists in the case of any banking institution. It then has a duty to its depositors and to itself which can best be discharged by applying for membership and thus securing the protection which can be obtained in no other way. Whenever the company is wholly or chiefly given to the performance of fiduciary functions, possesses no banking department or carries a very limited volume of demand deposits, there is no definite reason for membership; there are, indeed, many arguments against it.

Not a few companies, however, stand in neither of these positions, and the question for them is a serious one. Most numerous among such companies are those which conduct a considerable banking business and carry large lines of individual deposits, but which have not invested their funds in quick commercial paper and so cannot be sure of prompt relief either through the liquidation of their paper in the natural course or through its sale or rediscount. Companies in this position usually count upon the retention of their deposit lines undisturbed or believe that in the event of panic or uncertainty they will be able to get relief from neighboring institutions which have kept their resources liquid and are in position themselves to obtain relief from Federal Reserve Banks. Experience having repeatedly shown, however, that such expectations may be disappointed, many trust companies argue that it may be wiser to insure against danger by obtaining membership in a Federal Reserve Bank.

RESERVE SYSTEM NO PANACEA

Such an argument on the part of a trust company is based upon erroneous assumptions. There is nothing in law or in custom to compel a Reserve Bank to extend accommodation to a member. It is true that, after the issue of great quantities of Liberty bonds, Reserve Banks often fell into the practice of making large direct discounts against notes secured by such bonds, but this practice will not continue indefinitely. The far-sighted trust company officer should recognize that, in future, membership in a Reserve Bank will be of little profit to him unless he is in a position to present eligible paper for discount when he requires relief or assistance. Such eligible paper can come into his possession only through the adoption of methods designed to develop this kind of business.

The problem of the trust company like those under consideration is thus not that of becoming a member of the Federal Reserve system but that of conducting the banking side of its business upon banking principles, dealing in commercial paper of short terms and liquid character to an extent sufficient to ensure the ready liquidation of deposit liabilities when presented for cashing. As a means of completing and perfecting its protection to depositors membership in the Reserve system is highly desirable—not to say essential. Without the preliminary preparation for active membership which consists in developing a commercial clientele, membership itself will ordinarily be of little service. The company's reserve carried in the vaults or on the books of the Reserve Bank furnishes no more protection than would be afforded were it carried in the company's own vaults or on the books of an ordinary commercial bank. It is the power to convert live paper into reserve funds that differentiates the Reserve Bank from other institutions, but this power cannot be exerted unless the trust company is in possession of such paper. The company just on the margin of safety, with a small volume of commercial paper which must be turned over or liquidated rapidly in order to protect its depositors in an emergency, finds a strong motive for membership, since a relatively small holding of paper affords greater safety to an institution which can depend upon rediscounting it, than does a much larger volume of

paper if held by a non-member. In such cases, therefore, business prudence dictates membership in the Reserve system.

TRUST COMPANIES CONTROLLED BY BANKS

There are several hundred trust companies (probably about eight hundred) in the United States to-day, each of which is controlled in common with an affiliated national bank and is, in effect, owned by it or its stockholders. Such institutions occupy a rather special position with reference to membership in the Federal Reserve system. If they can fully rely upon protection at the hands of their affiliated banks, the latter being members of the Reserve system, there is no strong argument in favor of applying for membership. They have an indirect connection with the Reserve Bank through their affiliation with a member and can feel assured of help when needed. It is to be remembered, however, that such help can be efficiently extended only if the affiliated member is itself in good condition to rediscount. If this is not clearly the case, the problem of trust company membership can be settled only after careful study of all the facts.

CHAPTER IV

OFFICERS

INTRODUCTION

THE official staff of a trust company varies with its size and business. No matter how small the organization, there should never be less than two executive officers, performing the duties of president and of secretary and treasurer. If the business will not admit of paying salaries large enough to secure the services of additional officers, a member of the board of directors should serve as vice-president and take charge when the president is absent, and a clerk should act for the treasurer in similar cases. The executive positions and duties are often combined in various ways; vice-president and treasurer, treasurer and secretary, trust officer and secretary, are some of the more usual combinations. The arrangement depends, however, on the size of the company, the number of officials, and the individual abilities of each. What seems a logical and proper division of duties at one time, may after a change of officers fail to secure effective results, and require a rearrangement.

Each department should be in charge of an officer and when new lines of business are taken up new heads of departments must be appointed to direct them. No company should be under-officered. The present tendency to have an ample number of officers is particularly noticeable among the more recently organized and larger companies, as compared with the older ones. The business of a trust company is far more complex than that of a national bank, and consequently a larger proportion of officers is needed in order to provide for the innumerable and constantly varying details which require an officer's attention.

In addition to the president, one occasionally finds a chairman of the board of directors who presides over its deliberations but does not perform any administrative functions. This expedient is some-

times resorted to in the case of the consolidation of two companies when it is desired to retain the services of the presidents of both. Curious relics of the past are also occasionally perpetuated, as in a New England trust company where the chief executive officer bears the title of "actuary," and the so-called "president" acts only as chairman of the board of directors.

In a large company there are frequently several vice-presidents and assistant officers — each one in charge of some part of the business. An arrangement of this sort not only tends to keep the company at all times adequately officered, and prevents the officers from being too much tied down to their desks, but also often makes it possible to retain the services of capable and efficient employees, who as assistant officers are content to stay on at a moderate salary when as mere clerks they would probably be dissatisfied and leave. A trifling advance in salary when combined with a title is always appreciated, and is a mark of confidence which generally results in more and better work.

Whatever the titles or arrangement of duties, the company should be organized as a unit and not as a number of entirely separate and unrelated businesses. It is, of course, essential that the business of the trust department be kept apart from the affairs of the company itself; at the same time, uniform systems and methods should be employed in all departments, the carrying out of which is left to the officers in charge. The greatest coöperation and harmony between the various departments would probably be secured if their heads were considered a sort of cabinet, and if important matters were submitted to this body before final decision by the president. Were they to hold regular meetings to consider the details of the company's business and management, just as the president and finance committee of the board consider investments and general policy, each officer would become better versed in the affairs of the company as a whole, and correspondingly more efficient in the work of his own department.

When officers are engaged in outside business and do not devote their entire day to the company's affairs, it is well to have a distinct understanding on the subject, for even the best-intentioned officer may find it difficult so to arrange his work that neither his

own affairs nor those of the company shall suffer. Except in cases where the company cannot afford to pay for the entire time of an officer, or where it is thought wise to use the name of an influential man who acts as a figurehead or in an advisory capacity, it is best to secure the whole time and undivided services of all the officers.

This need not, however, cut off opportunities of development and usefulness through outside interests. One of the reasons often given for the unsatisfactory condition of municipal affairs in this country is the supine attitude and lack of civic pride of many corporation officers, who shun politics and do not dare to express their opinions or take a vigorous stand against political wrongdoing, for fear that such action may antagonize the political powers and result in hostile legislation or annoyance of an even more direct character. It is no more necessary for a trust company officer than for anybody else to rush precipitately into public controversies, yet a live interest in public affairs, a well-developed social as well as private conscience, with a realization of the duties and responsibilities of citizenship, are important characteristics of the highest and most truly successful type of corporation officer. Officers cannot take too much interest in public matters, provided they always bear in mind their duty to their employers, and permit neither outside interests nor personal affairs to interfere with the company's business.

Confidence is, next to financial soundness, the foundation on which a trust company must build, and the organization is judged largely by the character of its directors and officers and the personnel of the office force. It is therefore necessary that the officers of a trust company should show, even by their smallest actions, that implicit confidence may be placed in them. They should never accept presents, commissions or rebates of any sort, direct or indirect, nor indulge in speculation even of the mildest kind, and such practices should be strictly forbidden. A trust company officer who takes commissions or dabbles in stocks is bound, in the end, to injure not only himself, but the company with which he is connected. Sufficient salary should be paid to enable each officer to live comfortably, so that he need have no excuse for resorting to these means of eking out an insufficient income. Clear insight and a robust standard of integrity are the only protection against the more

insidious forms of "graft" which present themselves in the alluring guise of legitimate opportunities for private gain.

PRESIDENT

It is a trite saying that there is always room at the top; how much room is best realized by the directors of a large financial institution confronted with the difficult problem of choosing a chief executive officer.

The prominent banker of a generation ago was usually the man who, having made a success of his business, had amassed capital and then stepped from the borrowing to the lending class. His judgment, matured by years of contact with business problems, was generally to be relied on, and his knowledge of men and affairs was of no little worth in forming opinions as to financial values.

The present century is, however, one of specialization, and the choice of a progressive board of directors is now likely to fall on the man who has had a good technical training in banking, rather than on a prosperous merchant who has already done his best work and is not versed in the intricacies of finance.

The ideal chief executive officer should possess all the major virtues, and not too many of the minor vices. It is rare, however, that the "all round" man can be found, and if by any chance he is discovered it is still rarer that he can be secured; for there is to-day nothing which the capitalist needs more, and, having it, is more loath to part with, than the services of an executive officer of the best type.

The successful president must be a man with common sense and the power of judging character. He should be of good address, with pleasant manners, and if a ready wit happens to be one of his natural possessions it can be turned to good account. Executive ability, a level head, cool judgment, and firmness tempered by charity are all important qualifications of the head of any corporation. It is better for the president to be in advance of his time than ever so little behind it. To be truly successful, he must be a leader, not only in finance, but in the broader interests of the community.

As large powers vest in the person of the president, it behooves a board of directors to use the utmost diligence in their efforts to secure

the right man, for it is far easier to elect a president than to part company with one. It is essential that the character, antecedents, and qualifications of a candidate should be thoroughly investigated, and evidence secured even in regard to what seem petty details, which may give a clue to personal idiosyncrasies or important traits of character. Needless to say, the office should invariably seek the man, except in the rare cases where undoubted fitness or long service may justify a dignified application. As a general rule, the man who makes a hard fight to secure the presidency of a trust company and who feels it necessary to use political and social influence to forward his ambition, by these very acts proves that his character and the record he has made are not sufficient to warrant his selection. The best men must usually be offered the position and given sufficient inducements to insure their acceptance. The retired business man on the company's board who is willing to help his colleagues by assuming the chief executive position is rarely the best man for the place, for the qualifications of a good director are often very different from those of a successful president.

In the choice of a president, it is assumed that the board desires to secure the best available man, and that the prosperity of the corporation is the single end to be gained. When other motives influence a choice, it is evident that the directors themselves are not all that could be desired, and that the stockholders ought to make the annual election something more than a perfunctory occasion.

The desire to maintain continuity of policy, and fear that the selection of an outsider may lead to changes or unknown dangers, often induce the appointing body to seek first a candidate from among those already connected with the institution. When such a search reveals a fit man, tried and true, a well-deserved promotion solves all difficulties. When, however, those already in the employ of the institution have not the requisite qualifications, neither a misapplied civil service idea nor the fear of change should be allowed to interfere with the selection of the best available man — wherever he may be found.

It is wise first to cover the local field, as much trust company

business is of a personal and confidential nature and the executive officer who is familiar with the character of his constituency is at some advantage over the man who is forced to pick up this knowledge after assuming office. If the stranger, however, brings with him the prestige of a reputation gained elsewhere, it will tide over many initial difficulties of his new position. Once in the presidential chair, the executive officer should have the loyal and unqualified support of his board of directors, and should be allowed wide latitude of action.

The whole system of organization is based on the centralization of power in the hands of a single executive officer, in whose person, as representative of the stockholders and board of directors, authority finally rests, and who simply delegates to subordinate officers such of his powers as are necessary for the proper conduct of the details of the institution's management.

The president is the commanding general of the office force, from whom all orders emanate, these orders being carried out by passing them through the series of officers who form the chain necessary to reach the desired point. The strict observance of the custom of passing all executive orders through the heads of the various departments to the proper divisions and sections in turn, is necessary if the best discipline is to be maintained.

New business generally originates in the president's office and is then referred to the officer responsible for such work. If the president wishes to keep in touch with an important transaction, he does it, not by handling the details himself, but by close oversight of the proper department. Rigid adherence to this principle is necessary if confusion and costly errors are to be avoided. A general officer should never yield to the temptation of personally attending to the details of some important transaction when there is a department organized to care for just such business.

As head of the institution, the president, both in and out of his office, sets an example to his subordinates which is far stronger than any disciplinary measure, and the employee will respond more quickly to the spirit shown by his chief than to any number of arbitrary rules. While the president cannot, by virtue of his office, be expected to be as regular in his hours as is the teller or bookkeeper, he should

nevertheless set a standard of punctuality, manners, neatness, and the thousand and one qualities which go toward the making of a successful business man.

The president is a directing officer and not a clerk, and he should therefore be given such competent assistance that his time need not be wasted in doing work which a subordinate could do just as well. The president's time is chiefly spent in consulting with those connected with the institution, and in doing business with the outside public. He should arrange his duties so as to avoid conflict between the claims of the two. The practice of the United States government departments is to devote the first and the last hour of the day to business which requires consultation between the officers of the departments, while the rest of the day is given up to the public. Even in a trust company where the public cannot, of course, be kept out as it is from a government office, fewer business calls are made during the first and last hours of the day than at any other time.

The president after reaching his office first clears his desk of the morning mail, then receives the heads of the various departments, and takes up such matters of business within the office as require his attention. These disposed of, the public has its turn, with possible interruptions on the part of directors and employees. In a country where "all men are created equal," it is important that the highest officials of a trust company should be readily accessible to the public. Even the president of the company is for the time being the servant of the customer, and the popularity of an officer may very largely depend on the ease or difficulty with which he can be approached. He should, of course, be protected from the book agent and advertising shark, but the weeding-out process can be simply and effectively accomplished by a tactful assistant in the anteroom. The luncheon hour is a convenient time for the president to meet and consult with members of his board and important customers, especially if luncheon is served in the building, as is becoming more and more the custom among trust companies.

When the duties of the president call him out of his office, his absences should be regulated so as to interfere as little as possible with his work inside the building, and not only should his assistants

keep in touch with his movements, but there should always, if possible, be some available officer who can act for him.

In addition to the president's general duties, the final responsibility for making investments ¹ devolves upon him, with the assistance of the finance committee of the board. In the matter of appointments, he is likewise the arbiter. The officer in charge of the department of the company into which a new incumbent is to be put, should be consulted in order that a person may be secured best fitted to the special duties to be performed. Every one should, however, know that while the recommendations of the various heads of departments in regard to appointments, dismissals, promotions, and changes of occupation have weight, the final decision rests with the executive.

VICE-PRESIDENT

The unadorned statement of the by-laws that the vice-president's duty is to assume the functions of the president in the absence or disability of the latter, leaves this individual in an even more difficult predicament than the Vice-President of the United States, who at least has the Senate over which to preside. Where the president is something more than a figurehead, it would hardly be worth while to pay a vice-president simply to stand ready to throw himself into the breach should occasion arise. Additional functions must be provided for him.

Many trust companies have several vice-presidents, each one of whom is usually in charge of some department. Where a large corporate trust business is transacted, the certification of bonds is a duty usually assigned to the vice-president. In smaller companies the position is often combined with that of the treasurer or some other officer. Occasionally — when the president is the nominal head — the vice-president virtually occupies the first position. Whatever the arrangement, it is essential to have a vice-president, so that the business of the company shall not be clogged by even the temporary absence of the executive. One of the most frequent arguments for the appointment of corporate executors and trustees is

¹ See page 377 Investments.

that they never die or change. Quite as important a recommendation should be the fact that during business hours there is always an officer at hand who has authority to transact any business that may arise. Delay in executing official documents or interviewing customers often causes both loss and annoyance. In general it is a sound principle that in every trust company there should be two individuals capable of filling each position, from the highest to the most humble.

The vice-president, to fill wisely a delicate and responsible post, must ever bear in mind that the authority vested in him is delegated, and that he must coöperate with, and look for guidance from, a superior officer. The two chief executive officers should always be in close touch and see as much of each other as their respective duties will permit. They can supplement each other and so arrange their work as not to conflict or overlap.

In appointing a vice-president, whatever his routine duties, it must be remembered that at some time, for longer or shorter periods, he may be called on to act as president. His qualifications for filling that position — even temporarily — should be carefully weighed before he is given the responsibilities and the prerogatives of the second place.

TREASURER

The treasurer is at the head of the banking department. His position is analogous to that of the bank cashier.

The president and vice-president consider questions of policy, the larger problems of management, and the making of investments; the decision once made, the treasurer becomes responsible for the actual transactions, and for the details of all strictly banking business.

The treasurer passes on all new deposit accounts, signs all drafts for the disbursement of funds — whether charge slips for transfers within the office or checks which go outside. He is the custodian of the company's assets and is therefore responsible for the vaults, and for the care of the securities which they contain. It is usual for the tellers to be held directly responsible for their cash. The treasurer, however, generally has charge of the cash reserve not used in the current transactions of the company.

This officer is charged with the duty of making loans, subject to such rules as may be laid down for his guidance. He needs to have a general knowledge of securities and their values, for in considering an application for a loan, questions of rate, amount and character of collateral, and other terms must usually be decided on the spot. Nor does his responsibility end with the acceptance of the loan. The loan clerk is required to figure the margin and keep in touch with the market fluctuations; but the treasurer will not be doing his full duty if he does not himself watch the developments of the market from day to day, and keep a constant oversight of the loans to see that too much of any one security is not held, and that the loans are not weakened by the substitution of inferior collateral. The organization of a statistical department makes such supervision possible with a minimum of effort.¹ In times of panic a heavy responsibility may rest upon his shoulders from the danger of loss through sudden shrinkage in the value of collaterals. He should in times of quiet and prosperity get rid of all securities of questionable value, and not wait until the storm breaks which may make such a course impossible. If a loan is unsatisfactory it may be called or the deposit of additional collateral may be required instead. When funds are needed, it is his duty to call loans in order to replenish the company's reserve.

When a trust company has become a member of the Federal Reserve system it is largely relieved of anxiety regarding reserve—assuming that a reasonable volume of “eligible” paper is held in its portfolio.² Such paper may be transferred by a practically automatic process called rediscounting to the Federal Reserve Bank of the district, which thereupon carries the proceeds to the company's reserve account and so restores its reserve balance.

The treasurer is responsible for the systems employed in his department in the receipt, payment, and care of deposits, and in the handling of loans. To settle the technical questions which constantly arise, he requires a good knowledge of banking principles and usage. His close contact with the details of the business, and the number of customers whom he meets, make this officer of considerable as-

¹ See page 217.

² See Chapter III.

sistance to his superiors when considering the effect of possible changes in policy or methods.

The treasurer also comes into close relations with the office force, and has it in his power to do much toward upholding a high standard of service. He usually pays the salaries, and not infrequently acts as purchasing officer, has charge of the company's building, attends to the advertising, the bonding of employees, and similar administrative duties. In fact, his office often seems a convenient place to which to refer all matters not belonging to any particular department.

In smaller trust companies, the positions of vice-president and treasurer, or secretary and treasurer, are frequently combined. In larger institutions, there are usually one or more assistant treasurers.

SECRETARY

The bank cashier acts as secretary at board meetings, and consequently an officer with the title of secretary does not appear in the plan of organization of either state or national banks.

Trust companies, occupying a broader field and doing more varied business than strictly banking corporations, find it necessary to have a larger corps of officers. The secretary—who is found in almost every corporate organization except the bank—is the logical addition to the executive force. He is not a mere amanuensis or recording clerk, but an officer performing varied and important duties.

The by-laws of most corporations, whether mercantile or financial, provide that the duties of the secretary shall include keeping the minutes of the board and of its committees, the custody of the corporate seal, and the attestation of all documents to which the seal is affixed. Upon him as secretary of board and committee meetings the correspondence resulting from action taken by these bodies naturally devolves. The secretary sends out notices of stockholders', board, and committee meetings, prepares the order of business,—usually fixed by the by-laws,—and aids the presiding officer in the conduct of the meeting.

The general correspondence of the company is received by the secretary or by assistants detailed for this purpose under his direction. Where a general correspondence room is maintained, the secre-

tary is the officer upon whom the oversight and direction of this department naturally fall.¹

In a small trust company the title of secretary is often combined with that of treasurer or trust officer, as the duties belonging strictly to the secretary are not enough to fill the time of a high-salaried official. Whatever the combination of duties, it is well to have a secretary and assistant secretary, so that there may always be some one at hand who can attest the seal when attached to official documents.

Keeping the minutes may be an onerous task in large corporations, where many matters come before the board for consideration. The writing of minutes by hand, when the hand is that of a well-paid officer, is a waste of time and an unsatisfactory method of keeping important books of record. The secretary should make short notes at the meeting, and immediately after its adjournment, while his impressions are fresh, should dictate the minutes in full to a stenographer. They should be typewritten on loose sheets of a suitable size ruled with a single vertical line to give a margin at the left-hand side. After examination, the minutes should be signed by the secretary, and placed in a file or binder. At the end of each year, or other regular period, the sheets should be removed from the file and permanently bound. They should be numbered consecutively, and a careful index should be prepared and bound with each volume.

Long and formal resolutions, such as those authorizing the sale of real estate, with lengthy descriptions of the properties conveyed, may be simply noted and a supplemental book kept, in which the resolutions are filed. This makes it easier to refer to the general minutes, as well as to find the special records thus grouped.

Copies of the by-laws and of resolutions conferring general powers on officers are frequently needed, and a supply of these should be printed and kept on hand, in such form that when certification is necessary the secretary may be able to add the seal and his attestation without delay.

¹ For description of correspondence room, see p. 440.

MANAGER OF CORPORATE TRUST DEPARTMENT (TRUST OFFICER)

The executive head of the department responsible for corporate trust business is known by various titles, and is often one of the vice-presidents. Whether he occupies a more responsible post than the head of the individual trust department depends entirely on the relative importance of the departments and the amount of business each transacts. The two departments are in some instances combined under one head, and when the business is small two separate organizations would not be justified. In Massachusetts trust companies are found which, to avoid hampering restrictions, have never applied for the power to act as executor or trustee for individuals, and hence have no individual trust department, but devote all their energies to corporation work.

The corporate trust department is called upon to perform the duties of the trust company in a number of capacities. When the company is a trustee for bond issues the head of the corporate trust department has charge of the securities and records relating to the bonds received, issued, and cancelled. He conducts the correspondence and in the event of default he may have to take charge of foreclosure proceedings or other legal measures for the protection of the bondholders.

The manager of the corporate trust department has charge of the business of the trust company in its capacity of fiscal agent of corporations. This includes the payment of interest on registered and coupon bonds, of dividends on capital stock, and at times of the principal of bonds and other obligations. The collection and disbursement of funds often bring the trust company into close relation with a wide range of interests, and the success attending its work rests largely upon the tact, foresight, and energy displayed by the manager of this department.

The registration and transfer of the shares of stock of other corporations form an important part of a trust company's duties. This work must be handled expeditiously and important decisions must frequently be made by the manager of the corporate trust department. To discharge these duties properly he needs to be thoroughly

familiar with the practices relating to the transfer of stock, and he should be acquainted with the laws and decisions of the courts upon the subject.

When the trust company is chosen as manager of an underwriting syndicate, when it is designated as depositary under plans of reorganization of a corporation, or when it becomes either assignee or receiver of an individual, firm, or corporation, the manager of the corporate trust department must assume responsibilities requiring a high order of ability coupled with fairness and patience in dealing with the complicated problems that are sure to arise.

MANAGER OF INDIVIDUAL TRUST DEPARTMENT (TRUST OFFICER)

When the company does a large individual trust business, the trust officer is the most sought-after man in the organization. Guide, philosopher, and friend, he touches in the most intimate way the lives and the fortunes of those whose affairs he may control. He sees the family in its joys, its sorrows, and its disagreements, and, like the doctor and the priest, his advice and help are sought in every dilemma. Small wonder that he must be possessed of infinite patience, of wisdom, of firmness tempered by charity; that he must learn how to say no without offending, how to make a refusal seem almost a favor.

Trust business is governed by law at every turn, so the trust officer must either be a lawyer himself or have some one to whom he can readily apply for legal advice. Most trust officers are members of the bar, but there are notable exceptions. Long association with court practice and familiarity with the business may make a layman as successful a trust officer as the most accomplished lawyer. A general counsel who is easily accessible can supply the needed legal advice, and gradually impart a working knowledge of legal principles to the officer unlearned in the law. It is also the custom to employ as special counsel for each estate the lawyer who brings the business to the trust company, or who is chosen by the parties in interest, and he will usually prefer to be consulted before decisions of moment are made. If a lawyer is appointed as trust officer, he should be a man

of high professional standing, for his decisions are liable to review by the courts, and may have far-reaching effects. A capable layman is far safer than a second-rate lawyer.

Corporations are in some states forbidden by statute to practice law, but irrespective of any statute trust companies should be careful to avoid even the appearance of attempting directly or indirectly to engage in the practice of the law, both because of the unfavorable effect upon lawyers who might otherwise bring to the company legitimate business and because, by its very nature the legal profession is not suited to a corporation. The reasons are stated by a New York court as follows:¹

"The practice of law is not a business open to all, but a personal right, limited to a few persons of good moral character, with special qualifications ascertained and certified after a long course of study, both general and professional, and a thorough examination by a state board appointed for the purpose. The right to practice law is in the nature of a franchise from the state conferred only for merit. It cannot be assigned or inherited but must be earned by hard study and good conduct. It is attested by a certificate of the Supreme Court and is protected by registration. No one can practice law unless he has taken an oath of office and has become an officer of the court, subject to its discipline, liable to punishment for contempt in violating his duties as such, and to suspension or removal. It is not a lawful business except for members of the bar who have complied with all the conditions required by statute and the rules of the courts. As these conditions cannot be performed by a corporation, it follows that the practice of law is not a lawful business for a corporation to engage in. As it cannot practice law directly, it cannot indirectly by employing competent lawyers to practice for it, as that would be an evasion which the law will not tolerate."

To be successful, the trust officer must have full authority over his department, and be assured of the cordial support of his superiors. This support is particularly necessary because in the interpretation of testamentary and other directions he has to act in an almost judicial capacity, and appeals may often be taken from the decisions he makes in carrying out the provisions of wills and deeds of trust, or the instructions of the courts. The president and directors fix the general terms on which trust business is to be taken, and the preliminary arrangements are often made by the president himself; but the account when accepted is entirely in the hands of the trust officer.

¹ *Matter of Co-operative Law Co.*, 198 N. Y. 479, 483.

Investments are also usually made by the president and directors, subject to legal restrictions. The trust officer, however, owing to his familiarity with the needs of each case, is best fitted to assign the investments to the individual accounts.¹

In smaller companies, the position of the trust officer is often combined with that of vice-president, secretary, or treasurer. As soon as the volume of business will warrant it, the trust officer should be relieved of all duties outside his department, and should be given as many assistants as may be necessary to take charge of the various details of the trust business and exercise his authority when absent. The trust officer should keep track of all new business and have his department so thoroughly organized that each transaction will naturally fall into its proper channel. In no part of a trust company's business are the details so many or so diverse, and in none is it more necessary to keep the confidence and good-will of the customer by having them regularly, promptly, and carefully attended to. A successful trust officer has said that his most important function is to plan such accurate systems that when a piece of business leaves his desk the details are provided for automatically.

The personality of the trust officer is the chief factor in establishing and maintaining pleasant relations between the trustee and the *cestui que trust*. He should be readily accessible and always willing to listen to requests and complaints, and yet he should not allow his visitors to take too much of his time. He has to consider separately the varying problems of each estate; how to secure the largest income returns, when to buy and when to sell, how to reconcile diverse interests and conserve the rights of both life tenant and remainderman. When the opinion of counsel and of experts must be obtained before difficult problems can be settled, it falls to him to convince even the most impatient parties in interest of the necessity for delay. From all his subordinates he should require the prompt despatch of business, with unfailing courtesy and consideration. Especially upon his assistants who may have to be sent into the homes of clients should he impress the necessity of gentlemanly dress and behavior. The very nature of the business is confidential,

¹ See page 378.

and he cannot lay too great stress on the duty of every employee to regard as private all information coming through trust company channels.

The trust officer, if he can demonstrate his ability to safeguard the interests of those with whom he has to deal, has rare opportunities to win their confidence and esteem, and through them to attract others to his company. He is also in a position to secure new business by maintaining cordial relations with the members of the bar and the judiciary.

CHAPTER V

BANKING DEPARTMENT

ORGANIZATION

THE wide powers exercised by trust companies, and until recently their comparative freedom from restrictions in regard to keeping a fixed reserve to secure deposits, have brought about a remarkable expansion in the strictly banking functions of these institutions. The trust companies have entered into active competition with the banks in securing deposit accounts, and by paying interest on daily balances they have been successful in attracting an immense amount of business. In the states where broad powers are granted, under a general banking law — such as that of Illinois — one finds the trust companies doing a trust business and carrying on commercial banking in its various branches as well.

The large sums on deposit in trust companies have given these institutions a commanding position in commercial development, and in the promotion of all sorts of enterprises. For many years the importance of the field occupied by the trust companies was obscured by reason of their non-affiliation with the clearing houses. Until within a short time the trust companies carried deposit accounts with state or national banks in much the same manner as individuals or commercial corporations, so that the banking operations of the trust companies were not fully reflected in the weekly bank statement. In most of the larger cities the leading trust companies are now members of the clearing house or clear through a member. The bank statement in these cities therefore discloses more nearly the actual conditions.

Banking functions occupy the principal attention of the large New York trust companies. The floating of bond issues and financing of corporations of all sorts have opened up a profitable use for their deposits and enabled these companies to offer great inducements to

the depositor in the way of interest. Even where the care of individual estates forms a lucrative part of the trust companies' business, their banking functions are so important and varied that they deserve careful consideration.

The treasurer is the executive officer of the banking department, and is directly responsible for its management.¹ The clerical work of the department may be divided into —

- I. The receipt of deposits.....Receiving teller
- II. The disbursement of depositsPaying teller
- III. The care of depositsIndividual depositors' bookkeeper
- IV. The use of depositsLoans

For the convenience of the depositor both deposits and payments may be handled by the same teller. The operations, however, remain distinct.

RECEIVING TELLER

The receiving teller is responsible for the receipt of all items, whether cash, notes, checks, or other forms of indebtedness taken for deposit. He is responsible for the work and conduct of his assistants.

He should be a man of undoubted honesty, good address, obliging yet firm. He should always make the depositor — whether capitalist or office boy — feel that he is welcome, and by courtesy and kindness do all in his power to keep the good-will of his customers. The paying and receiving tellers can by their manners do more to attract or drive away business than any other individuals in the employ of the department. A conscientious treasurer in his private office is well-nigh helpless to counteract a bad impression made on customers by his representatives behind the grills. It therefore behooves the appointing officer to exercise the greatest care in the selection of the tellers, and to impress on them the importance of their position, and the direct bearing of their actions on the success of the entire organization.

As the duties of the receiving teller include the most careful scrutiny of every item which passes through his hands, and as there

¹ For details of treasurer's functions and duties, see p. 62.

is considerable mental strain in performing, often under pressure, such responsible work, it is essential that the machinery of this division should be as simple as is consistent with safety, and that all unnecessary clerical work should be avoided.

The depositor is required to fill out a deposit slip, giving the title of the account, the date and particulars of the deposit. It is the duty of the receiving teller to verify the facts and figures on the slip before entering the amount of the deposit in the pass book. He should always be careful to see that the title of the account is accurately and clearly written, for all subsequent entries are made from this original record, and an incorrect or illegible slip may cause a series of errors.

Banks and trust companies always provide their customers with deposit slips, partly for the convenience of the depositor, but even more to facilitate the clerical work of the company. The slip, made out by the depositor or his representative, serves as the customer's description of the deposit and may be of value in case of dispute. It is therefore always well to use the depositor's memorandum, even though written on a rough bit of paper, rather than to destroy this piece of evidence and replace it by one of the usual slips filled out by an employee of the company. For convenience in verifying deposits, the customer is required to specify the total amount of notes and of specie, and to list separately the various other items.

The description showing the place of payment of the separate checks is useful in enabling the teller to judge how soon a depositor who carries a small balance can be permitted to draw against recently made deposits. It also helps to identify the item in case a check is lost. If a depositor carries a large balance, it is enough to list the amount of each item without any further description, for the indorsement of a check would show to what account it had been credited in case it should be returned unpaid. Some institutions itemize on their deposit slips each denomination of note and specie. Except in very large deposits, this retards rather than facilitates the work of the teller. A special form of deposit slip is often used for the deposit of coupons as cash items. Coupons have to be examined with especial care and the separate slip saves the tellers the annoyance of having them indiscriminately listed with cash and checks. As a

matter of convenience, coupons are often received for deposit at the collection window.

After verifying the separate items of a deposit, the teller enters the total in the depositor's pass book. The pass book should be of a size convenient to carry in the pocket — $6\frac{3}{4}'' \times 4\frac{1}{4}''$ outside measurements has been found a satisfactory shape. On the outside cover, made of leatherette, cloth, or tough manila, should be a space for the depositor's name. The title of the company should then follow. If the name of the depositor is at the top, the books can be stacked like a card index and most easily handled.

Inside the cover it is usual to find one or more printed pages, reciting the terms on which deposits are taken. The front pages and back cover of the pass book are also convenient spaces for advertising the company. The blank pages of the pass book should contain a date column, a column for description of the deposit, and a cash column. Both right and left hand pages should be ruled alike, faint cross lines about $\frac{1}{3}''$ apart serving to guide the teller in entering deposits. Now that it has become the custom to list paid checks on an adding machine, both right and left pages are used for entering deposits. When a settlement is made, the balance at last settlement and the deposits are totalled, and from this amount the total of checks shown by the adding machine list is deducted. Subsequent deposits are entered below the resulting balance. From twenty-five to fifty double pages are ample for the ordinary pass book. Experience has shown that larger books are unwieldy and are likely to wear out before they are filled.

When deposits are made without the pass book, the teller should stamp the slip "No Book," and later, when the book is presented for settlement, or for the addition of the omitted deposit, the slip should be initialled by the teller after the entry is made.

A more modern practice adopted by many progressive banks and trust companies is that of rendering a monthly statement to each depositor showing the month's transactions and the opening and closing balances of the account. In such cases pass book settlements are unnecessary and the pass book is used only for the purpose of recording deposits. For deposits received by mail an acknowledgment is sent upon receipt of each deposit.

RECEIVING TELLER'S DAILY SETTLEMENT.

RECEIPTS				
Individual Depositors, -				
A - F				
G - N				
O - Z				
Certificates of Deposit				
Certified Checks				
Demand Loans				
Time Loans				
Commercial Paper				
Stocks				
Bonds				
Mortgages				
Accrued Interest Receivable				
Safe Deposit Rentals				
Total				
DISBURSEMENTS				
Payments to Paying Teller,				
Notes				
Specie				
Checks				
Total				

Where two or more depositors' ledgers are kept, the teller should separate the slips belonging to the different ledgers. Several times during the day his files of deposit slips should be emptied, each lot listed on an adding machine, and the slips then turned over to the bookkeepers for posting. The teller's totals of the deposit slips settle at the end of the day with the totals of the bookkeepers.

All checks on other institutions are listed and are then either sent to bank for deposit or in due course are settled through the clearing house. It is a common practice to have all of the company's deposits in other banks made by the paying teller and to have the receiving teller's total included in the paying teller's settlement. Checks on the company itself are passed over to the paying teller, and, if good, the receiving teller is given a due bill covering them.

Where the trust company is a member of the local clearing house the checks or other items payable by other members are sorted according to the paying banks and trust companies, placed in envelopes showing the name or clearing house number of the paying bank and the name or number of the sending bank together with the aggregate amount of the items in the envelope. The method of settlement through the clearing house has been described fully in many works upon banking and it is therefore unnecessary to repeat here what has been well said elsewhere.

The receiving teller's work is settled at the end of the day in the receiving teller's settlement book. One page of this book is devoted to each day's work. A list of the more active general ledger accounts is printed, as a matter of convenience, while a few blank spaces following this list leave room for such accounts as appear but seldom. Following the list of receipts, divided according to the general ledger accounts, appear the payments to paying teller, divided into notes, specie, and checks. The totals of both lists must settle, just as the total of the deposits received must balance with the depositors' totals as made up by the bookkeepers. It is customary for the receiving teller to give his figures to the paying teller at the end of the day, but not to turn over the specie and notes until the following morning, when the paying teller can prove the cash at his leisure.

Items which cannot be taken as cash, such as notes, drafts, and obligations of every sort not due when deposited or of uncertain pay-

ment, are taken for collection. There is often a separate teller who has charge of this class of deposits and who sometimes also receives coupons and other items not strictly cash.

All items received for collection are entered "short" in the depositor's pass book. That is, a description of the deposit, including the amount if it is known, is written in the description column of the book only, the amount not being "extended" or placed in the cash column until the item has been actually paid and the proceeds have been placed to the depositor's credit on the ledger.

If a trust company does a commercial banking business it should furnish each depositor who has a large number of items for collection with a separate pass book in which the teller in charge of the collection window can list all such items when deposited. As each item is paid it is crossed off and entered in the depositor's regular pass book.

A trust company either makes collections directly through its correspondents in various parts of the country, or through the clearing house, or deposits its collection items in a local bank. In the latter case, as each item is paid it is crossed out in the company's collection pass book, the proceeds are placed to the credit of the trust company's deposit account, and the corresponding entry is made in the regular pass book. The trust company has to keep a record of collections in which each item is entered as received from the depositor, and a card index on which the items are arranged according to the date when due or payable. The record of collections can be either a loose leaf or bound book. Each line can be numbered so that the items may be treated on the maturity index by their accession number, thus often avoiding the repetition of a long description. One line should usually be sufficient for each item. The record should contain the following data: date received, date due, name of depositor, nature of obligation, description, number of items, amount of each, deductions, total amount, where payable, date deposited, how collected, date paid, remarks. As the items are paid, they are checked off so that the outstanding items can be seen at a glance.

The maturity index should be kept on cards. It is simply a cross index of the open items in the collection record, arranged as to dates. The cards should be ruled so as to show the item number, descrip-

tion, due date, and amount. Guide cards divide the index into the days of the current month, the following eleven months, and subsequent years. Overdue items should be kept in front. The index should be examined each morning and the current guide cards moved so that it will always show the exact condition of the items out for collection.

As soon as an item is paid, it is noted in the collection record, a deposit slip is made out, the amount is passed to the credit of the proper depositor, and the maturity index card is destroyed.

It is a growing practice for depositors to leave for deposit coupons which mature at various future dates. These are entered short in the depositor's book and are treated exactly like other collection items, except that at maturity they are usually put through as cash. In other words, they are entered in the collection record as paid on the day on which they are deposited in bank by the trust company, and the depositor is given credit at that time. As the larger part of the work can be done in advance and the items can be examined at leisure, this practice is encouraged for the convenience of all concerned. It is usual for the trust companies to deposit coupons in bank before they are due, to get these troublesome items out of the way before the first of the month.¹ Bonds which have been called for payment or which have matured are treated in the same way as coupons. The teller in charge of the coupon and collection window should keep himself informed as to where coupons and bonds are payable, should have lists of called bonds easily accessible, and full information as to defaults, reorganizations, etc. In this way he can render much appreciated service to depositors and prevent the return of many items deposited through carelessness or ignorance. Dividend orders and orders for the payment of registered interest should also be carefully examined and when there is any possibility of non-payment should have "No Protest" slips attached.

Great care should be exercised in receiving notes and other nego-

¹ Coupons representing interest on tax free covenant bonds, except in the case where the owner is a domestic and resident corporation, must be accompanied by proper ownership certificates signed by the owner of the securities. Ownership certificates are not required, however, for the coupons of bonds which do not contain a tax free covenant clause except where the owner is a non-resident alien individual, fiduciary, partnership or corporation. Ownership certificates are not required in the case of coupons representing the interest on state, municipal or other tax-exempt obligations or on United States Government bonds. See regulations 65 of the Internal Revenue Bureau.

tiable instruments, and informalities should be detected and rectified at the time of deposit. Future trouble with depositors can also be avoided by asking for explicit instructions as to whether the obligation is to be protested if not paid.

Some depositors make a practice of drawing on their customers whose accounts are overdue. Such items are often troublesome and are frequently returned unpaid. They should under no circumstances be accepted as cash. Indeed, business of this sort can usually be refused, unless the company is doing a commercial banking business, in which case the depositor should pay for the service rendered.

"This book must accompany each deposit," was a familiar legend in the pass books of a few years ago, but the rule is now "more honored in the breach than in the observance." The practice of mailing dividend and interest checks, and the competition for deposits, have led many companies to offer special facilities for doing a mail business, and attractive circulars are issued giving instructions as to the necessary procedure in "Banking by Mail." Deposit slips and addressed envelopes are furnished the depositors, and the receipt of each deposit is promptly acknowledged. The account is settled monthly or when the interest is allowed and a statement of the account is sent with the cancelled checks. Some companies take the precaution of having all mail deposits received and acknowledged in the treasurer's office before the items are passed over to the receiving teller. In other companies these deposits are addressed to the receiving teller and are acknowledged by him.

PAYING TELLER

What has been said in regard to the responsibilities of the receiving teller applies with even more force to the man at the other window. The duties of both tellers have much in common, but there is one great difference; it is often possible for the receiving teller to locate and rectify an error made in the receiving of a deposit, while the paying teller has no way of correcting a mistake after the cash is paid out.

The position is at best a difficult one, and it is a matter of econ-

omy, if nothing more, to make such arrangements that the paying teller can keep his mind on his immediate duties and be free from any other responsibilities or distractions. His patience is often and severely taxed by unpleasant customers, and this fact should be borne in mind by the superior officer when listening to complaints and appeals from the teller's decisions.

"You will have to be identified, Madam, before I can pay this check, for I do not know you," has been known to provoke the retort, "Well, I'm sure I don't know you, and what's more I don't want to!"

A paying teller's life is not all difficulty, however. The position is one of responsibility, to be sure; but the hours are short, there are many periods of enforced leisure, and there are more pleasant customers than unreasonable ones. Each day's work stands for itself, and with the cash once settled there is no more thought nor care till the morrow's business commences.

It is important that the paying teller should be able to handle notes and coin rapidly and accurately, that he should be able to detect counterfeits, and to make quick mental calculations. A good memory for both faces and names is of inestimable service to him.

The paying teller should know that he has the unqualified support of his superior officers, and, on the other hand, he should be made to realize the necessity of considerate and gentlemanly treatment of all customers.

The treasurer should see that the teller is provided with an ample supply of the various denominations of coins and notes. Assistance should also be given him in putting up small denominations of coin. There are mechanical devices for counting and wrapping coin, which save labor and prevent the possibility of miscounts. The mechanical trays for use in making combinations of coin provide a rapid and accurate means of counting out small lots of specie.

New money, both coin and notes, is now very largely used, particularly in trust companies, some institutions even advertising that they pay out no old currency. New notes are more difficult for the teller to handle than old ones, but they should be provided for all customers who desire them, and a little foresight will usually make it possible to keep an adequate supply on hand. There is always a

great demand for new money just before Christmas, and an extra supply should be ready in time. If new notes cannot be obtained from local institutions, the Treasury Department at Washington can generally fill the order, charging only the cost of expressage.

Members of the Federal Reserve system find it easier to obtain their coin and notes from the Reserve Bank of their district. The changes in the character of our money circulation which have come about in consequence of the war have given to the Federal Reserve note a place of predominating importance in the circulation. These notes are redeemable on demand in gold, and can be converted at the issuing bank into new or clean notes of desired denominations. Other Federal Reserve Banks will accept the notes of any one of the twelve issuing institutions and furnish their own notes in exchange. The conditions governing redemption are fixed in rulings issued from time to time with the approval of the Federal Reserve Board and are liberal. They usually include shipping charges on gold sent the Reserve Bank and on notes forwarded in return.

The paying teller, by the exercise of a little tact and patience, can gradually educate the depositor to help rather than retard his work. Thus employers can usually be prevailed on to send memoranda of their pay-rolls in advance, so that the money can be put up before or after hours—for nothing is more maddening to a line of customers than to be kept waiting while a long and difficult order is being filled. Many banks and trust companies now provide printed slips to be used in specifying how pay-rolls shall be put up. Both to save time and to help in tracing differences the teller should encourage the depositor to list on a slip or on the back of his check the denominations desired.

The teller has yet to be found who does not occasionally settle "short," or, less frequently, "over." Differences should, however, occur but seldom if the teller exercises due care and is provided with the necessary safeguards to locate responsibility. Such seemingly slight details as a wrong way of counting notes, or a lack of system in handling the individual transactions, may result in constant errors. It is a safe rule to count the money twice before paying it out. When the day's work does not settle, the settlement should never be forced, but every effort should be made to locate the difference, no

matter how small, as it may be the result of two larger errors which almost balance each other.

Different institutions have varying practices as to the disposition of "shortages" and "overs." The custom of permitting the teller to make up a shortage is a vicious one — for it at once takes him into partnership, as it were, and naturally results in his keeping any "overs" to help reimburse himself for the hard-earned money he has had to pay out. The knowledge that he may be personally liable for his errors also has a tendency to make him nervous and to result in further mistakes. In some institutions a definite sum is set aside each year to cover shortages. Probably the most satisfactory method is not to appropriate any definite sum, but to have every error, whether shortage or over, entered in a general ledger account, "Errors in Cash." Even when the company assumes liability for all errors, the officers should impress on the tellers the necessity of accuracy and the bearing which it may have on the question of promotion or even upon the retention of their positions. The knowledge that his errors are recorded and reported is in itself a sufficient penalty for a conscientious and careful teller, who would often much rather make up a difference than have it become known. In all cases the charge or credit should be initialled by the proper officer and a note of the difference should appear in the settlement book — even if it amounts to no more than a cent — for at a later date it may serve to explain some mysterious tangle. It is often wise to carry a difference for at least two days before charging it up. If not found within this time, the mistake is not likely to be discovered.

The work of the paying teller's department comprises the payment of checks with cash, the settlement for checks paid either through the clearing house or to bank runners, according to the local custom, and, where the receiving teller settles through the paying teller, the deposit of funds in bank. When there is more than one paying teller, each should have his own cash and make his own settlement, the chief teller making the general settlement for the entire department. The settlements "between tellers" should be detailed, so as to facilitate the location of errors. In some companies each teller pays checks drawn on accounts in certain ledgers. More often, the tellers pay items indiscriminately. The former system makes each

teller responsible for a certain number of accounts with which he can be more familiar than where he has to remember a greater number of signatures. The latter method saves time, however, and hence is more satisfactory from the depositors' standpoint, and certainly makes it easier to deal with large numbers of customers. Bank exchanges are usually received at a special window by an assistant teller, in order to facilitate the handling of the quantities of checks which are presented in this way.

In paying checks over the counter, great care must be exercised in examining both the indorsements, and the signatures, and the teller must be satisfied as to the person presenting the check. It is a common practice, for the protection of the depositor as well as of the bank, to refuse payment of large checks drawn to bearer when presented by strangers. When bearer checks for any large amount are cashed, the payee should be required to indorse the check, and it may sometimes be wise also to insist on identification.¹

The indorsements of checks paid through the clearing house or directly to another bank are guaranteed by the institution receiving such payment, a stamped indorsement generally being used, with some such wording as,—

"Pay any bank, trust company, or banker; all prior indorsements guaranteed."
All qualified indorsements must be absolutely guaranteed by the presenting bank.

After payment of the checks, they are placed on a file which makes a small cut and are then listed on an adding machine or in a scratcher, and are passed to the bookkeeper to be sorted and posted. They are not cut "Paid" before the day's work is completed, as overdrafts may not be detected until the bookkeeper posts the checks.

Bank runners presenting checks are usually paid by checks on the institutions in which deposit accounts of the company are kept. The banks in which trust companies deposit generally allow the latter interest and collect checks and all other items for them. The trust companies, being among the largest and most satisfactory customers of the banks, receive liberal treatment, notwithstanding the fact that the banks often consider them dangerous rivals. Trust companies'

¹ See *Banking Law Journal*, Vol. XX, p. 771, "Indorsement of checks paid over the counter."

PAYING TELLER'S DAILY SETTLEMENT

RECEIPTS

Balance at Opening	
--------------------	--

From Receiving Teller	
From Cashier	
From Treasurer	
From Secretary	
From Auditor	
From Other Officers	
From Other Members	
From Other Sources	
Total	

From Savings Department	
-------------------------	--

DISBURSEMENTS	
---------------	--

Individual Depositors,-					
-------------------------	--	--	--	--	--

A - F			
G - N			

$G = N$			
$Q = Z$			

Certificates of Deposit					
-------------------------	--	--	--	--	--

Certified Checks	
------------------	--

Demand Loans	
--------------	--

Time Loans	
Commercial Paper	

Commercial Paper
Stocks

Bonds	
-------	--

Mortgages

Accrued Interest Receivable	
-----------------------------	--

Expenses Payable	
Accrued Interest Payable	

Accrued Interest Payable	
--------------------------	--

Balance	
---------	--

[illegible]

Notes - 1st Teller			
2nd "			

2nd			
Specie - 1st Teller			

	2nd	"		
--	-----	---	--	--

Checks - 1st Teller			
---------------------	--	--	--

2nd	"			
National Bank				

	National Bank
	National Bank

	National Bank
	National Bank

	& Co. Bankers
--	---------------

	Balance at Closing
--	--------------------

Balance at Closing	
--------------------	--

bank accounts are usually settled weekly and interest is added each month.

The paying teller's daily settlement book shows the gross amount on hand at opening, to which is added the total of the day's receipts from the receiving teller. From this sum the day's payments are subtracted, the resulting balance equalling the amount of cash on hand and in bank, which is shown in detail.

The payments are subdivided according to the general ledger accounts charged, and in the case of individual depositors are further itemized to show the amount charged against each depositors' ledger. The titles of the more active general ledger accounts are printed, and space is left in which to write those which occur less frequently.

The balance on hand at the close of business is separated into notes and specie, showing, when there is more than one teller, the amount in the possession of each, and also the balance in every bank in which the company carries a deposit. Where the company is a member of the clearing house, or clears through another bank, the teller's settlement shows an item for checks to be cleared the following morning.

Depositors frequently wish to have their checks certified or to get in place of them bank drafts on a local or distant institution. In the latter case, if the depositor's check is good, the trust company issues its own check in exchange for the depositor's, and in the former, the following form is stamped across the face of the check and properly filled out: —

Good for \$
when properly indorsed.

.....
Treasurer.

The amount of the check is also indicated by figures with a safety device or punch. At the same time, a charge is made out on the following form, which takes the place of the certified check until its final payment: —

Date.....
The Paying Teller will please charge.....\$.....
being
.....
<i>Treasurer.</i>

The amount of the certified check is at once charged against the depositor's account and is placed to the credit of a general ledger account called "Certified Checks." When the check is finally paid, it is placed with the depositor's other cancelled checks, the treasurer's charge slip is withdrawn, and the general ledger account is charged with the amount of the check.

The forms of charge slip used against general ledger and individual depositors' accounts are often printed in different colors or on different sorts of paper, in order to distinguish them easily.

When a depositor's check is lost, the drawer should promptly report this fact and sign a "stop payment" order, giving the date, amount, and number of the check, and the names of both the drawer and payee. The notice is entered on a "payment stopped" sheet, and is also placed on a list which the teller keeps before him. The payment stopped sheet is the same size as the sheets in the individual depositors' ledger¹ but of a different colored paper. All printing on the sheet is in red. At the top are the words "payment stopped," and the name of the depositor. Columns headed as follows fill the rest of the sheet: date stopped; drawn in favor of; check, date and number; reason; amount; date returned. The sheet is filed directly in front of the depositor's statement and ledger sheets, and forms a permanent record of all the depositor's checks on which payment has been stopped. When the missing check is found the fact should be reported promptly so that the item can be crossed off the list, which under the best of conditions is too long for the comfort of the teller.

In the past few years, partly to meet the increased ingenuity of forgers, great advances have been made in perfecting mechanical check protectors and check writers and in manufacturing safety paper

¹ See page 106.

for checks. In most states the loss on a raised or altered check is imposed on the bank or trust company paying it, but wherever the loss eventually falls, both financial institution and depositor suffer inconvenience and the necessity of incurring legal expenses. Accordingly, practically all trust companies employ check protectors in drawing their own checks and are interested in having their depositors take like precautions. At least one manufacturer issues insurance against forgery in connection with the sale of his devices.

CLEARING TRUST COMPANY CHECKS

The clearing of checks has within the past few years passed through a period of great transformation. In former times the attitude of banks toward trust companies was distinctly hostile in so far as it affected the clearing of checks, the banks complaining that business was taken from them by their unrestricted competitors, while the trust companies felt that although they were among the banks' best customers they were often subject to discrimination and had to pay too high for their privileges. Since the organization of the Federal Reserve system many changes have occurred and most of these have worked to the advantage of the trust companies. A trust company which becomes a member of the Federal Reserve system is entitled to all the privileges of that system, with reference to the clearing and collection of checks, which are open to the banks themselves. Indeed, the Federal Reserve Board has gone further than was originally intended by the Federal Reserve Act and has obtained amendments to the Act permitting the clearing and collection of checks drawn on non-member trust companies, in order to pave the way toward the creation of a par clearance system.

The present situation, therefore, is of a dual character. The clearing houses established in various cities throughout the country still have their original rules relating to non-member checks, while the Federal Reserve system has created a superstructure of clearing which may when desired supersede the older system. The new system is briefly referred to in the discussion of the membership of trust companies in Federal Reserve Banks, but deserves more extended treatment at this point. In order to present the present situation as

lucidly as possible it is best to describe separately the Federal Reserve clearing system and the older unincorporated clearing house system.

The Federal Reserve Act as originally adopted provided for the clearing of member-bank checks at par throughout the country. It authorized Federal Reserve Banks to receive on deposit for credit and collection checks and drafts on solvent banks, domestic and foreign, while it directed each Federal Reserve Bank to act as a clearing house for its members, and authorized the Federal Reserve Board to act as a general or national clearing house for all Federal Reserve Banks. This necessitated very early consideration of the subject of clearing, and led to the present system of Federal Reserve clearance.

The Board found that the introduction of a general and effective clearance and collection system was a highly technical matter, involving legal questions and many complexities of practice. It was calculated to arouse the opposition of many banks, due to the loss of revenue from the exchange on checks which they had been accustomed to charge. The Board thought best at first, therefore, to leave the actual initiative in the matter largely to the Federal Reserve Banks and at their instance to authorize a voluntary system of clearance and collection in which member banks might or might not participate as they chose. Such a system, as explained in the Board's annual report for 1915, was in fact put into effect by each of the Federal Reserve Banks, and for a time it was hoped that it would prove effective. Experience, however, soon showed that the plan was not sufficiently comprehensive, and that many factors were militating against its success. The number of members did not increase materially, and in some districts declined. There were indications that the system in the form then adopted was a hardship to certain classes of banks, while the plan did not attain, and seemed unlikely ever to reach, such a plane of efficiency as to make it a substantial factor in the clearance and collection system of the country. For these reasons the Board decided in April, 1916, to establish a uniform and more comprehensive system, and it formulated a plan of clearance and collection which it directed the Federal Reserve Banks to put into effect. This actually became operative on July 15, 1916. Under the new system member banks are free to continue to carry

accounts with their present correspondents and with other banks to which they may send items for collection and from which they may similarly receive checks drawn upon themselves or upon other banks. They are, however, required to pay without deduction checks drawn upon themselves and presented at their own counters. Remittance of such checks by the Federal Reserve Bank of their district through the mail is construed as presentation at their own counters and banks must settle with the Federal Reserve Bank for such checks by acceptable checks upon other banks. Remittance of lawful money or Federal Reserve notes can be made at the expense of the Federal Reserve Bank in case the member is unable to send in offsetting checks on other banks. Checks drawn upon a member bank which have been received by the Federal Reserve Bank are not charged against its reserve account until sufficient time has elapsed for the checks to have reached the member bank and for returns in due course to have reached the Federal Reserve Banks.

In order to perfect the clearing system, the Board obtained an amendment to the Act in June, 1917, whereby Federal Reserve Banks were allowed to receive accounts for collection and exchange purposes from such non-member banks and trust companies as might agree to remit at par for checks drawn upon themselves and which would in addition maintain balances with the Federal Reserve Banks sufficient to offset the items in transit held for their account by such banks. At first the number of non-member banks thus participating in the par system was small, but as the membership of the Federal Reserve Banks increased the total number of remitting banks expanded so rapidly either through membership or through the maintenance of accounts, permitted as just explained, that in many parts of the country an almost complete par collection system has been established, although the credit is granted on a deferred basis and not upon an immediate debit and credit footing. In order to enlarge the facilities of the clearing and collection system the Board further authorized the Reserve Banks to receive for collection for account of the member banks maturing notes and bills and miscellaneous drafts, subject to a moderate collection charge. A system of transfer drafts was also put into operation by all Federal Reserve Banks which enables any member bank to have its drafts, drawn upon the Federal

Reserve Bank of its own district, cashed immediately at any other Federal Reserve Bank without time allowance or deduction.

All these changes would have been of little avail had it not been for the introduction of a system of national clearance that has become known as the gold settlement fund. This was early established for the purpose of effecting clearances between Federal Reserve Banks. Early in 1915 the Board required each Federal Reserve Bank to deposit with the Treasurer of the United States or at any sub-treasury \$1,000,000, plus the net amount of its indebtedness to other Federal Reserve Banks. Clearances were then made weekly on the books of the Federal Reserve Board in the office of its secretary at Washington. Whenever a bank had exhausted its balance in the gold settlement fund it was required to make an additional deposit. The system worked so well and the convenience of storing gold in this way was so great that Federal Reserve Banks have in recent years preferred to keep their gold with the Federal Reserve Board in the vaults of the Treasury rather than at home. On June 1, 1919, the settlement was shifted from a weekly to a daily basis and improved in many details. The effect has been to eliminate the necessity of shipping gold to different parts of the country and to bring into existence a genuinely national system of clearing in which practically all banks of the country may readily participate.

The following is a copy of the circular sent out by the Federal Reserve Bank of New York to its members for the purpose of advising them of the conditions under which checks will be cleared and collected for them. The system as thus outlined is substantially identical with that in force in all Federal Reserve districts.

COLLECTION OF CHECKS

You will find in the following pages the current rules and regulations covering the collection of checks by this bank. This circular is intended primarily to codify and clarify all previous circulars issued by us on this subject, and, while not making any substantial changes in the procedure heretofore established, it supersedes the provisions of all such previous circulars.

The circular covers the mutual rights and duties of this bank and all banks which send checks to us for collection and also the conditions to be observed by banks to which we send checks for collection or remittance.

No member bank is required to use the check collection system, but may, without charge and subject to the terms of this circular, send checks for collection through the Federal Reserve Bank regularly, occasionally, or not at all;

or may collect them through present correspondents or in any other manner considered advantageous.

I. GENERAL CONDITIONS UNDER WHICH ITEMS ARE ACCEPTED

Every bank sending checks or other cash items to the Federal Reserve Bank of New York or to another Federal Reserve Bank direct, for our account, will be understood to have agreed to the terms and conditions of this circular and to have agreed that in receiving such items the Federal Reserve Banks will act only as the collecting agent of the sending bank; that the Federal Reserve Banks will be responsible only for due diligence and care in forwarding or presenting such items; that the Federal Reserve Banks are authorized to present or send such items for payment in cash or bank draft, direct to the bank on which they are drawn, or in their discretion to forward them to another agent with authority to present or send them, for payment in cash or bank draft, direct to the bank on which they are drawn; and that the Federal Reserve Banks are authorized to charge back the amount of any items (whether or not the items themselves can be returned) for which payment either in cash or in the proceeds of the bank draft has not actually been received.

II. ITEMS RECEIVED UNDER THIS CIRCULAR

The Federal Reserve Bank of New York receives at par from its member banks:

(a) Checks drawn on banking institutions (including private bankers) in the United States which can be handled at par.

(b) Government warrants and checks. Member banks of this district, other than members of the New York Clearing House Association, may include in their remittances to the Federal Reserve Bank of New York for immediate credit at par, but subject to payment by the Treasurer of the United States, Government warrants and checks drawn on the Treasurer of the United States. Members of the New York Clearing House Association may send Government warrants and checks to the Federal Reserve Bank through the Clearing House, subject to payment by the Treasurer of the United States.

The Federal Reserve Bank will not receive under the terms of this circular the following classes of items:

(a) Collection items as defined by our Circular No. 516, "Collection of Maturing Notes, Bills, and Other Collection Items." This includes any check or draft with pass book, certificate or other similar form of receipt attached. Such items will be handled as collection and not as cash items.

(b) Any check drawn on a bank located outside of this district which bears the indorsement of a bank located outside of this district.

In the interests of good banking, the indirect routing of checks will be discouraged and member banks will not be permitted to deposit with us, or send direct to other Federal Reserve Banks or Branches for our account, any checks payable in other Federal Reserve Districts, which bear the indorsement of banks located in other Federal Reserve Districts, in cases where it is evident that such checks have been routed indirectly.

(c) Checks or drafts on banking institutions which cannot be handled at par. Such items will not be received, either as cash items under this circular or as collection items under our Circular No. 516, "Collection of Maturing Notes, Bills, and Other Collection Items."

(d) Checks which have been once presented and dishonored or protested.

Such checks must not be included in cash letters and will be handled only as collection items.

Direct Sending to Other Federal Reserve Banks of Items Drawn on Banking Institutions in Other Districts.—Member banks will be permitted, under certain conditions and regulations, to route checks payable in other Federal Reserve Districts direct to the other Federal Reserve Banks and Branches of the districts in which the items are payable, for our account, provided permission to do so is first obtained from the Federal Reserve Bank of New York. Member banks desiring to avail themselves of this privilege will write us for permission (if permission has not already been obtained) and, if granted by us, they will be advised in a separate letter giving full information and complete instructions.

It will be understood that items sent direct are subject to the terms and conditions of this circular.

III. CREDIT AND HANDLING OF CASH ITEMS BY FEDERAL RESERVE BANK OF NEW YORK

Credit for Items Sent to Us.—For all checks received by us under this circular credit at par upon receipt will be given in the member bank's deferred account. Credit will be given in the member's reserve account, and the proceeds of the items will become available when the appropriate time indicated on the current time schedule has elapsed. Our acknowledgment of member bank's cash letters shows the date of receipt and the date upon which the amounts will be transferred from the deferred to the reserve account.

Credit and availability are in all instances subject to our actual receipt of payment as specified in the "GENERAL CONDITIONS UNDER WHICH ITEMS ARE ACCEPTED." In this connection attention is invited to the fact that the periods of the time schedule are based generally upon the average mail time required for items to reach the paying bank, plus the time required for the paying bank to remit to the Federal Reserve Bank, and they do not necessarily indicate the actual time required for collection. It must be borne in mind, therefore, that advice of availability cannot and must not be considered advice of actual payment.

For Government checks and warrants immediate credit at par will be given, but such credit will be subject to payment by the Treasurer of the United States and to the general conditions of this circular applicable to all items.

The Treasurer of the United States reserves the usual right of the drawee to examine, when received, all Government warrants and checks and to refuse payment thereon, and the Federal Reserve Bank of New York will handle such items in accordance with the provisions of Treasury Department Circular No. 176, as amended and supplemented May 15, 1922.

Method of Handling Government Checks and Warrants.—(1) The Treasurer will return immediately any warrant or check, payment of which is refused on account of forged signature of drawer, insufficient funds, stoppage of payment, or any material defect discovered upon first examination. Such items will be charged back and returned to the depositing bank for immediate credit.

(2) In the event that any warrant or check which has been paid by the Treasurer is subsequently found to bear a forged indorsement, or to have been raised, or to bear any other material alteration or defect which was not discoverable upon first examination, a photographic copy of the warrant or check will be sent to the depositing bank, but its account will not be charged pending adjustment.

(3) In cases of warrants or checks bearing a forged signature of the drawer, not discovered upon first examination by the Treasurer, and in other cases where the Treasurer's right to reclaim is in question, the warrants or checks will not be charged to the account of the depositing bank, but will be returned to it as collection items for adjustment.

Unpaid Checks and Protest Instructions.—The Federal Reserve Bank of New York receives and forwards checks only under the following instructions:

Wire direct to this bank non-payment of items of \$500 or over, naming indorsement immediately preceding that of this bank, and giving reason for non-payment.

Items of \$10 or under do not protest.

Items of \$10.01 and over protest, if items do not bear on the face this stamp (N. P. 1-120) or similar stamp containing the A. B. A. number of a preceding bank indorser.

The Federal Reserve Bank of New York will absorb telegraphic costs in connection with wiring advice of non-payment of items of \$500 and over. All other telegraphic costs in connection with obtaining and advising payment or non-payment, or any other information or instructions at the request of the depositing member bank, will be charged to the requesting member bank.

IV. PRACTICE FOR SENDING BANK

Indorsement of Checks.—All checks forwarded to this bank must be indorsed without restriction to the order of the Federal Reserve Bank of New York or to the order of any bank, banker or trust company with all prior indorsements guaranteed and show the American Bankers' Association transit number of the indorsing bank in prominent type on both sides of the indorsement stamp.

Unpaid Checks and Protest Instructions.—If it is desired that checks be handled, as to protest and notice of dishonor, other than in accordance with the above instructions, they must be sent us as collection items with special instructions and we will forward them accordingly.

Sorting Checks.—In order to expedite the forwarding of checks and to obtain prompt credit, member banks are requested to sort and list checks in accordance with the divisions of our time schedule, with a separate letter or total for each separate time group. All letters received, separated in accordance with the time schedule, will be credited in full for the total shown and errors in listing or footing will be adjusted by a separate debit or credit. Checks received unsorted will not be made available until the lapse of the longest period applicable to any of the items enclosed.

Federal Reserve District Number on Checks.—In order to expedite the sorting and routing of checks, all banking institutions in this district are requested to print on their own checks and the checks used by their depositors the figure "2" (signifying Federal Reserve District, No. 2), preferably in a large skeleton figure in the center of the check.

V. PRACTICE FOR PAYING AND COLLECTING BANKS

A return remittance form of letter for the use of the remitting bank will be enclosed with every outgoing transit letter. This form should be returned with the remittance draft.

Any unpaid items received in any letters from the Federal Reserve Bank, unless held for protest, should be returned with the remittance for such letter, the total unpaid items to be deducted from the footing of such letter, and the net amount remitted, so that in each instance the remittance plus unpaid items returned therewith, plus items, if any, held for protest, will equal the amount

of the letter. Items held for protest should be returned with draft in payment of the next succeeding letter, the amount of the protest fees being deducted from such letter.

Notice of non-payment shall be given and protest made in accordance with the instructions indicated above.

All checks returned to us for indorsement should be certified.

Collectible at Par Through the Federal Reserve Bank of New York.—Member banks and banking institutions remitting at par are entitled to place the words, "Collectible at par through the Federal Reserve Bank of New York," on their own checks and the checks used by their depositors. Attention is called to the desirability of availing of this privilege.

The right is reserved to withdraw, add to, or amend at any time or from time to time any or all of the foregoing rules and regulations with or without previous notice.

The introduction of the Federal Reserve system of clearing has not, however, superseded the older clearing-house system, and there are throughout the United States some one hundred and sixty-five separately organized clearing houses. While such clearing houses differ somewhat in their rules and regulations, the general system is practically the same and is so familiar as not to require special description. The conditions, however, under which trust companies which are not members of the local clearing house may have the use of facilities deserve attention. Since the organization of the Federal Reserve system this is of less importance than formerly, but it still remains a matter of significance to those companies which are not members of the Federal Reserve system or which, although members, prefer to clear direct through the clearing house of the city in which they are located.

Where trust companies are not members of the clearing house, they are usually permitted to clear through an agent bank under definite rules laid down by the clearing house association.

Where no clearing house privileges are accorded the trust companies, or in case the trust companies have not availed themselves of clearing house privileges, the exchanges are collected by the messengers of the banks, and the trust companies deposit in the banks all checks, whether payable at local trust companies and banks or elsewhere. This means a delay in the final payment of checks drawn on non-members, with the added risk of non-payment which is thereby inevitably incurred. In also involves much clerical work for all concerned, without any corresponding advantages.

Where a trust company clears through an agent bank, the procedure is usually as follows: if required by the rules of the local clearing house, the trust company first agrees to abide by the conditions therein provided, as to reserves, statements, etc.; the bank is then given authority to clear for the trust company and sends notice to all the members of the clearing house association that items on the trust company will be received by it through the regular exchanges. All such items of the trust company are put up in separate sealed envelopes, the total of which envelopes is listed as one item on the regular exchange envelope of the agent bank. The agent bank has the same right to return the trust company's items as it has to return its own items. When the exchanges are taken from the clearing house to the agent bank, the trust company's envelopes are immediately sorted and their totals listed. They are then sent to the trust company, which gives a receipt for the total amount shown. All the envelopes are then opened, amounts proved, items examined, etc., and checks posted by the bookkeepers. Such items as are in any way irregular, the trust company returns to the agent bank in time for return to the sending bank through the next exchange. At the same time, the trust company sends a check to the agent bank covering the total amount of the exchange less the items returned, and takes up the receipt given earlier in the day, or else takes one from the agent bank for the purpose of keeping a record of the transaction. When there is a second clearing each day, the same procedure is followed after the later exchange, except that the trust company pays the agent bank in full on delivery of the exchange and is then responsible for the return of all irregular items to the sending banks by runner before the close of business of the same day.

Deposits with the various banks in which the trust company carries accounts are made in the ordinary way. The trust company's accounts become much less active than before, because a single check covers each clearing. Clearing through the regular exchanges, moreover, relieves the bank of collecting by messenger from the various trust companies.

In the trust company, the receipt of the morning's exchange makes it possible for the bookkeepers to post the previous day's items early in the day. The work of the paying teller's department is also less

than where the bank runners are straggling in during the day and each has to be paid separately.

The New York Clearing House permits clearing for non-members under terms announced in its constitution, published in November, 1923, as follows:

CLEARING FOR NON-MEMBERS

Section 1. No member of the Association shall make exchanges through the Clearing House for any bank or other institution whose exchanges have not heretofore been so made through a member, unless the same shall have been actually doing business for at least one year, nor until the making of such exchanges by a member shall have been approved by the Clearing House Committee after an examination of such bank or institution by the Clearing House Committee or by a committee of the Association duly appointed for that purpose.

Section 2. The consent of the Clearing House Committee shall also be necessary to the transfer of the making of exchanges for a non-member from one member to another member.

Section 3. Every non-member bank or institution now or hereafter sending its exchanges through a member of the Association shall pay to the Association the amount of One Thousand Five Hundred Dollars (\$1,500) annually in advance; and shall agree to be, and shall be, bound by, and shall comply with, all of the provisions of this constitution, and all of the rules and regulations which have been and may be established by the Clearing House Committee, affecting clearing non-members.

Section 4. Every non-member bank or institution now or hereafter sending its exchanges through a member of the Association shall submit, whenever required by the Clearing House Committee, to the same examinations as are now required of members of the Association.

Section 5. Whenever any member of the Association shall send through the Clearing House the exchanges of any bank or other institution not a member, such sending shall, ipso facto, and without other notice, constitute said member the agent for said bank or other institution at the Clearing House; and said member shall be liable in the premises the same as for its own transactions, and its liability in all such cases shall continue until after the completion of the exchanges of the morning next following the receipt of notice of discontinuance of any such agency.

Section 6. Every non-member bank or institution now or hereafter sending its exchanges through a member of the Association, shall furnish to the Manager of the Clearing House at the close of business on each Friday a weekly statement of its condition, in such form as shall be prescribed from time to time by the Clearing House Committee.

Section 7. Every institution redeeming through a member of this Association shall keep the same reserve against its deposits (as reported weekly) as prescribed for Clearing House members of the same class and provided for in Article III, Section 9, of this constitution. The Clearing House Committee shall have power to enforce this rule.

In Chicago, the number of non-members whose checks pass through the clearing house far exceeds the number of members. Section 22 of the Articles of Association of the Chicago Clearing House is as follows:—

"Any member of this Association may clear for any bank or bankers in the city of Chicago or vicinity—not members of this Association—after obtaining the consent of the Clearing House Committee, and being obligated to pay this Association annually,

For each of such banks or banking firms having a capital of

	\$25,000 to \$50,000	the sum of	\$150.00
Over	\$50,000 to \$250,000	. . . . .	\$250.00
Over	\$250,000 to \$400,000	. . . . .	\$350.00
Over	\$400,000 to \$600,000	. . . . .	\$450.00
Over	\$600,000 to \$1,000,000	. . . . .	\$600.00
Over	\$1,000,000 . . . . .	. . . . .	\$750.00

Such bankers or banking firms shall consent under proper authority to the same examinations, and render the same statements of their condition as are required of the members of this Association . . . and shall be subject to all such rules and regulations in matters of common interest arising from or affecting relations with banks in other localities, and the fostering of sound and conservative methods of banking, as have been or may from time to time be adopted by this Association, and shall sign an agreement so to do in such form as the Clearing House Committee may require. The Clearing House Committee shall satisfy itself that all non-members for whom members may clear are *bona fide* engaged in the business of banking, and have a capital employed in such business of not less than \$25,000. Individuals, firms or corporations engaged in other lines of business receiving deposits from their employees or others which they use in their regular business shall not be construed as coming within the meaning of banks, bankers, or banking firms. This amendment to go into effect on January 22, 1907."

A recent development of the clearing system has been in the direction of country clearing house arrangements. This is a matter of considerable importance to the trust company which has a large list of correspondents or which is in the habit of receiving many out of town checks. In this field, also, the regulations which have been established by the New York Clearing House are representative of those prevailing throughout the country. Under this system a fairly close adjustment is effected with the Federal Reserve clearing system. In this connection, too, it should be borne in mind that the Federal Reserve Banks are usually members of clearing houses in the cities in which they are located.

RULES AND REGULATIONS

REGARDING COLLECTIONS OUTSIDE OF THE CITY OF NEW YORK (Revised to March 1, 1921.)

Pursuant to authority conferred upon it by the Constitution of the New York Clearing House Association, the Clearing House Committee of said Association establishes the following rules and regulations regarding collections outside of the City of New York (except as to items on clearing non-members), by members of the Association, or banks, trust companies, or others clearing through such members, and the rates to be charged for such collections, and also regarding enforcement of the provisions hereof:

SEC. 1. These rules and regulations shall apply to all members of the Association, and to all banks, trust companies or others clearing through such members, but not to branches in foreign countries of member institutions. The parties to which the same so apply are hereinafter described as collecting banks.

SEC. 2. For all items deposited by or collected for the account of the Governments of the United States, the State of New York or the City of New York, from whatever source received (but not checks, warrants, etc., issued by said Governments and deposited by or collected for the account of the banks' other customers), the charge shall be discretionary with the collecting banks.

SEC. 4. (A) The charge for checks and drafts drawn on banks, bankers and trust companies located in Federal Reserve cities and cities where Federal Reserve Bank branches are at present or may hereafter be established, shall be governed by the "*Schedule showing when the proceeds of Items will become available*," as published by the Federal Reserve Bank of New York from time to time; that is to say, for such items on said cities where immediate credit is given and for such items which become available one day after receipt, the charge shall be discretionary; for such items available two days after receipt, the charge shall be $\frac{1}{40}$ of 1%; for such items available three, four and five days after receipt, the charge shall be $\frac{1}{20}$ of 1%; and for such items available eight days after receipt the charge shall be $\frac{1}{10}$ of 1%.

(B) Whenever the Federal Reserve Bank of New York shall add to its par list as an all par state, any state not now listed thereon as such (the present non-par states are indicated in the Schedule under Section 3), the charge for checks and drafts drawn on banks, bankers and trust companies located in such added state (except in cities having Federal Reserve Banks and their branches) shall thereupon be automatically fixed to correspond with, and be governed by, the charges specified in (A) of this Section 4, according to the said "*Schedule showing when the proceeds of ITEMS will become available*," as published by the Federal Reserve Bank of New York.

SEC. 5. In case the charge upon any item at the rates above specified does not equal ten (10) cents, the collecting bank shall charge not less than that sum; but all items received in any one deposit and subject to the same rate, may be added together and treated as one item for the purpose of determining the amount of exchange to be charged.

SEC. 6. (A) On acceptances of banks, bankers, and trust companies taken by member or clearing non-member institutions the charge shall be governed by the "*Schedule showing when the proceeds of Bankers' Acceptances will become available*," as published by the Federal Reserve Bank of New York from time to time; that is to say for such items for which credit is available at the Federal Reserve Bank of New York on the day of maturity, the charge shall be discretionary; where credit is available at said bank one or two days after maturity, $\frac{1}{40}$ of 1%; where credit is available at said bank three or four days after maturity, $\frac{1}{20}$ of 1%; where credit is available at said bank later than four days after maturity, $\frac{1}{10}$ of 1%.

(B) All notes or other time obligations, not provided for in sub-division A of this Section, purchased by member or clearing non-member institutions payable elsewhere than in New York City, shall be subject to a charge of not less than $\frac{1}{10}$ of 1%; provided, however, that for notes or other time

obligations purchased or discounted by any collecting bank, payable elsewhere than in New York City, but with respect to which, the maker, endorser or guarantor, or any bank, banker or trust company maintaining an account with the collecting bank, gives a written agreement at the time of such purchase or discount, that payment is to be provided in New York City on date of maturity in New York funds at par, the charge shall be discretionary.

SEC. 7. The charges herein specified shall in all cases be collected at the time of deposit or not later than the tenth day of the following calendar month. No collecting bank shall, directly or indirectly, allow any abatement, rebate, or return for or on account of such charges or make in any form, whether of interest on balances or otherwise, any compensation therefor.

SEC. 8. In case any member of the Association shall learn that these rules and regulations have been violated by any of the collecting banks, it shall immediately report the facts to the Chairman of the Clearing House Committee, or, in his absence, to the Manager of the Association. Upon receiving information from any source that there has been a violation of the same, said Chairman, or, in his absence, said Manager, shall call a meeting of the Committee. The Committee shall investigate the facts and determine whether a formal hearing is necessary. In case the Committee so concludes, it shall instruct the Manager to formulate charges and present them to the Committee. A copy of these charges, together with written notice of the time and place fixed for hearing regarding the same, shall be served upon the collecting bank charged with such violation, which shall have the right at the hearing to introduce such relevant evidence and submit such argument as it may desire. The Committee shall hear whatever relevant evidence may be offered by any person and whatever arguments may be submitted and shall determine whether the charges are sustained. In case it reaches the conclusion that they are, the Committee shall call a special meeting of the Association and report thereto the facts with its conclusions. *If the report of the Committee is approved by the Association, the collecting bank charged with such violation shall pay to the Association the sum of five thousand dollars, and in case of a second violation of these rules and regulations, any collecting bank may also in the discretion of the Association be excluded from using its privileges directly or indirectly, and, if it is a member, expelled from the Association.*

Resolved, that the foregoing rules and regulations are hereby established and adopted to take effect upon the 12th day of August, 1918.

RULINGS AND INTERPRETATIONS REGARDING COLLECTION CHARGES

—A—

All applications for rulings on regulations regarding collection charges must be made in writing and addressed to the Clearing House Committee. All rulings will be printed and sent to members and other institutions connected with the New York Clearing House.

—B—

The Clearing House rules contemplate the charging of collection rates on all out of town items, from whatever source derived, unless otherwise provided in the rules. This ruling is made comprehensive in order to meet ingenious cases for evasion.

—C—

A ruling has been asked on the following:

A suggestion that drafts be deposited in other than discretionary cities with the correspondents of a New York Clearing House member in such cities, to the credit of such member, the depositor to receive credit in the New York institution at par immediately upon notification of such deposit, and to be allowed to draw against such credits the same as against New York funds:—

It is held that this and similar cases are in contravention of Clearing House rules. If exceptions were allowed the flood of cases would practically nullify the rules.

In the case of bought paper the broker should allow the charge as part of the purchase.

—D—

No exception is made to the general rules governing collection charges for items drawn "with exchange," or bearing similar phrases, or when stamped "collectible at par through any Federal Reserve Bank." Such items must be charged for in accordance with the within named rates.

Counsel has ruled that checks stamped "payable in exchange" are not negotiable; therefore, such checks should not be accepted for deposit.

—E—

When items, subject to collection charges, are returned unpaid, the charge may be remitted.

—F—

Stocks, Bonds, and Coupons and drafts with Securities, Bills of Lading or collateral attached, are subject to the rules governing collection charges.

When such drafts are drawn on banks, bankers and trust companies the charge shall be that prescribed in the first column of the schedule contained in Section 3 of the Rules and Regulations regarding Collections outside of the City of New York, and when drawn on others the charge shall be that prescribed for "All other Items" in the third column of the schedule.

—G—

Any agreement, expressed or implied, entered into by a Clearing House member or by a non-member clearing through a member, with any individual, firm or corporation, by the terms of which it is intended that the rate of interest agreed to be paid on deposits is to offset and compensate for charges made on out of town checks, is a violation of Clearing House rules, and if brought to the attention of the Committee will be dealt with as provided by Section 8 of the Clearing House rules and regulations relating to the charges on out of town items.

—H—

The charge on Officers' checks of any Federal Reserve Bank and Federal Reserve exchange drafts which bear the statement, "Any Federal Reserve Bank will receive this draft for the immediate availability at par," is discretionary.

—I—

Items deposited for account of the U. S. Shipping Board Emergency Fleet Corporation are to be considered as items "deposited by or collected for the account of the Government of the United States," as provided for in Section 2, and the charge for the collection of such items when payable at chargeable points is discretionary.

QUESTION RELATING TO COLLECTION CHARGES AND RULING THEREON

QUESTION

Is it in contravention of the rules governing exchange charges for a Clearing House institution to receive for collection or deposit drafts on out of town points drawn "with exchange," with the understanding that the Clearing House institution shall add the exchange before forwarding for collection, crediting the depositor the new face amount of the draft, then charging his account exchange at the Clearing House rate?

RULING

A transaction of this character is not in contravention of the rules governing exchange charges, if the remitting bank actually collects from the drawee the amount of the draft plus the exchange charge, and exchange is charged by the Clearing House institution to its customer.

In various cities it has also been found desirable to establish a city collection department whose function it is to collect non-clearing house items within the city in which the clearing house is located. Here, too, it is worth while to employ the system in force in New York City as an illustration. In a circular letter dated November 15th, 1917, the New York Clearing House Association made known its determination to establish a city collection department as follows:

The following resolution was adopted at a meeting of the Clearing House Association held on September 13th, 1917:

"Resolved, That the Clearing House Committee be and is hereby authorized to establish in the Clearing House, for the benefit of its members, a department for collection of non-clearing house items in New York City, and to make such rules and regulations for the conduct thereof as it may from time to time determine."

Acting under the authority conferred by the above resolution, the Clearing House Committee has established a department for the collection of city items and has formulated a general plan and made rules and regulations, as follows:

The general plan under which it is proposed to conduct the department is to receive on deposit from members banks, checks and drafts of a specified character on certain individuals, firms and corporations in New York City. Lists of the selected names will be furnished by the Clearing House. For these deposits the manager will issue a receipt, or due bill, payable through the exchanges of the next business day. The items so deposited will be sent out for collection the same day by Clearing House messengers and the returns made to the Clearing House will be put through the exchanges of the next day as an offset to the total amount of receipts of the same date.

For the purpose of putting this plan into effect the following rules have been adopted:

1. The items to be received on deposit shall be restricted to clean bills. Drafts with documents attached, notes and coupons will not be received.
2. The items deposited shall be only such as are drawn on individuals, firms and corporations located below 14th Street, and named in a selected list to be prepared at the Clearing House.
3. All items deposited must be enclosed in sealed envelopes, or packages, one for each individual, firm or corporation on which items are drawn. The

contents of these envelopes will not be examined at the Clearing House.

4. The envelopes must be listed on deposit letters in the same order in which the names appear on the lists furnished by the Clearing House, and sub-totals must be shown for each route as designated on the lists.

The totals of each deposit letter must be entered on a due bill, or receipt, which must accompany each deposit and will be verified and signed by the manager and returned to the messenger.

5. Deposits must be made before 10 o'clock A. M., and but one deposit may be made each day by each member institution.

6. Checks must bear stamped endorsement in the following form:

Received Payment Through City Collection Department New York Clearing House Prior endorsements guaranteed. (Date) (.....Name of institution.....)

7. Deposit sheets, envelopes and due bills must conform to samples furnished by the Clearing House.

8. The Clearing House Association will not be liable in any way for the contents of the envelopes deposited, or for any lost or missing items, or for any claims for loss arising under any dispute or disagreement as to the contents of such envelopes.

9. Settlements with the Clearing House by individuals, firms and corporations on whom items are drawn, must be made by checks drawn on, or payable at, Clearing House institutions.

Should any loss arise through the non-payment of such checks, it shall be pro-rated among the members according to the amount of items they, respectively, had deposited, payable by the individuals, firms or corporations giving such checks.

All the individuals, firms and corporations included in the list have agreed to make returns not later than 1:30 o'clock; some, however, make this agreement with the expectation that items shall be presented to them not later than 11 o'clock. To accomplish this it is necessary that the work should be handled at the Clearing House in a very limited time, and it is urgently requested that members using this department make their deposits as much earlier than 10 o'clock as possible.

A number of deposit letters and due bills will be forwarded to your institution for immediate use, but when they are used it is expected that each member will obtain its own supply. Envelopes should be the exact size of the sample enclosed.

The future will undoubtedly see a uniform system of clearing on equal terms for all companies doing a legitimate banking business.

Whether the trust companies clear as members of the local clearing house association or as non-members matters little so long as the main object is secured. The value of the clearing house and the possibilities of the expansion of the system are as yet but little understood. The time will come, however, when more general clearing facilities and closer adjustment to the Federal Reserve system will be recognized as essential to the prosperity not only of the banks and trust companies, but of the whole business community.

CARE OF DEPOSITS

Simplicity and accuracy are the prime requisites of any system for the care of deposits. Where each operation has to be repeated so often, a cumbersome method, though it add only a few seconds each time, will in the end mean hours of unnecessary labor.

The principle is well illustrated by the Eleventh Census which was taken on the family-schedule basis thus giving a single individual, if unmarried, a separate page instead of putting on each sheet as many names as it would carry. The result is that the Eleventh Census is still unbound and would require some thirty thousand volumes, while the Twelfth Census is contained in six thousand volumes.

New accounts are opened by the treasurer, or a representative of that officer detailed for the purpose, who often presides over a special window marked "New Accounts." When opening an account it is customary to require a satisfactory introduction of the depositor and to secure such other facts as may be needed. Too great care cannot be exercised in deciding whether an account is to be accepted or declined. Even with the assistance of definite rules governing the required balance, rate of interest, etc., much has to be left to the officer's tact and discretion, and each case must be considered on its own merits. A little more power of observation would have spared embarrassment to the officer who asked a handsome depositor, "What is your Christian name, Madam?" and received the prompt and dignified reply, "My *given* name is Leah." A glance at the prospective depositor's left hand will usually give the clue as to whether the next question should be "Miss?" or "Mrs.?" The reply, however, may bring surprises, as in the case of a stout, middle-aged, and much-

bejewelled lady who gushingly answered, "A bride of yesterday."

One often hears the statement that a depositor has a right to open an account in any way he chooses, but it should be borne in mind that the proper authority must be shown when the funds are, for example, those of an executor or trustee, or belong to an incorporated organization. Some trust companies even decline to open an account in the name of "John Doe, Trustee," and require the trust to be designated. The ground for such action is that complications and possible liability may be avoided by having the ownership of the fund on deposit clearly designated. A safe rule to follow in opening accounts for decedents' estates or trusts is that the title should be that of the estate, corporation, or trust, but never the name of the executor, officer, or trustee, as these individuals may change from time to time during the continuation of the account.

In opening an account, a specimen of the signature or signatures is taken on a card, on the back of which the depositor's address and any other information are recorded. A card about 3"×5" is a satisfactory size. At the same time, it is well to copy the title of the account in an accession book to be passed to the various clerks affected. Each clerk should initial the record to show that he has made the appropriate entries.

A similar book should be used when an account is closed, in order to be certain that this fact is reported to all concerned. The signature index is kept by the paying teller. A copy of this index, giving the titles of the open accounts and the addresses of the depositors, should also be kept by the receiving teller or bookkeepers.

When an account is closed, the signature card is stamped "Closed" and placed in a special index for closed accounts. When signatures are changed or officers are superseded, the old signature cards are stamped "New Card" and filed with the closed accounts. The tellers' index should contain none but open accounts, as the tellers are concerned with current business only. A separate alphabetical index of closed accounts is of great value, as information is constantly being asked for in regard to the business of past years. The dates when the account was opened and closed being given on the card, the account is easily located in the proper ledger.

When an account is opened, a pass book is inscribed with the title of the account, a deposit slip is made out and the depositor is given any needed information as to deposits and withdrawals and the rules of the company. This done, he is ready to proceed to the receiving teller's window, where the deposit is received and examined and entered in the pass book. The receiving teller passes the deposit slip to the individual depositors' bookkeeper, in order that proper credit may be given the depositor.

The bookkeepers, handling hundreds of items each day, must necessarily be quick and accurate. Neatness, legible handwriting, and facility in mental arithmetic are also important qualifications. It should be an absolute rule that no bookkeeper be permitted to have any account in his ledger in which he has an interest, either direct or indirect.

The system of records must be simple and accurate, so arranged that the balance of each account is readily ascertainable, and that trial balances can easily be taken off.

In former years, an individual depositors' ledger was usually ruled in the ordinary ledger form, the checks entered in the left-hand or debit column, and the deposits or credits in the right-hand column. The account was balanced by adding to the checks the difference between the two sides, or the amount to the depositor's credit. The account was then ruled up, showing balancing totals on each side. In case of an overdrawn or debit balance, the amount of the shortage would be added to the deposit column. The pass book was a miniature copy of the ledger, the deposits being entered on the left-hand page and the checks listed in detail on the right-hand page. Owing to the large increase in accounts and the more general use of checks, this method has been superseded, and a gradual evolution in the direction of accuracy and speed has taken place.

The so-called "Boston System," by which the balance of each account is carried forward each day and a daily settlement of the ledger is made, is in use in both national and state banks. Trust companies carry less active accounts — except when they do general commercial banking — and consequently do not need to keep their individual depositors' ledgers in daily balance with the general ledger. Adaptations or modifications of the "Boston System," providing for

weekly, bi-weekly, or monthly trial balances, are more nearly suited to their needs. So-called "Duplicate Systems," by which the account is kept by two entirely distinct sets of bookkeepers, are also finding favor in commercial banks. When such a system is used, it is customary to enter deposits in a pass book, as a memorandum, but not to settle the book. Instead, one copy of the account is sent the depositor at fixed intervals, with the cancelled checks.

The methods adapted to commercial banks are fully described in all books on general banking. The present work is rather concerned with an adequate system for the care of less active trust company deposits. Without attempting to consider the many systems in use, one will be described in detail.

Ledgers are now found in bound books, on loose leaves in some form of binder, or on cards. Some bankers of conservative tendencies still favor the bound book, and some well-known bank examiners even hold that the loose-leaf ledger is dangerous in the extreme. Notwithstanding such opinions, this type of ledger has come into general use, and there are strong arguments in its favor. Many companies compromise by having all books of original entry bound, and all supplementary books of the loose-leaf type.

The bookkeeper's equipment consists of an adding machine, the ledger, the statement sheet, the interest slip, the sorting tray, and blotters. A bookkeeper and assistant can care for from one thousand to two thousand accounts, the number depending on the activity both of the bookkeepers and the accounts. The work is facilitated by dividing the accounts between two smaller ledgers rather than by using a single large volume.

The modern form of individual depositors' ledger is a loose-leaf book, all postings being made on an adding machine. By using a carbon sheet the ledger and depositor's statement are posted simultaneously and the customer consequently receives an exact copy of the ledger itself.

The individual depositors' ledger and the statement sheet are both twelve inches in width and the same length. The name and address of the depositor appear at the top of both sheets; they are inserted on the addressograph from the stencil list of depositors. The individual depositors' ledger sheet is ruled on both sides in columns as

The statement sheet is ruled similarly, but on one side only. It is perforated on the division line following the first column and at the division line between the fifth and sixth columns. The sheet is

[illegible]

also perforated across the bottom. The first and last two columns and the bottom edge of the sheet are torn off before the statement is sent out. At the top of the sheet, in addition to the name and address of the depositor, are printed the key designations of the symbols used in connection with the individual items in the statement. The last two columns after having been torn from the sheets are retained by

the bookkeepers until the final balances are copied on the new statement sheets for the following month. They are then destroyed. On the back of the statement sheet is a reconciliation form for the depositor to fill out and prove his statement.

The individual depositors' ledger and statement sheets are filed together in loose-leaf binders in alphabetical order.

It is in conformity with the best practice to make postings to ledger accounts directly from the checks and deposit slips. Only by using original papers wherever possible can the highest degree of accuracy be maintained.

At intervals during the day, arranged according to the amount of work, the tellers pass the paid checks and deposit slips to the assistant bookkeepers. Each one arranges his items alphabetically, both deposit slips and checks together. The head bookkeepers then place them in their sorting trays, light wooden boxes 10" \times 13½" with sides 1" high and a division across the center. The unposted items are kept in one division, face up, and the posted items face down in the other. The box also prevents the checks and deposit slips from being scattered. From the checks and deposit slips the bookkeeper posts to the proper account, entering all the checks or slips of a given depositor as a lump sum and changing the balance. A thin blotter is then inserted at the page where the entry is made. This is done to facilitate finding the page, and also to prevent any item being overlooked when the balances are verified at the close of business or on the following morning.

The bookkeeper, after posting all the items of the day, has completed his work, unless it is deemed wise to have the interest slips changed and the ledger balances verified the same day. This can usually be left till the next morning, to occupy the time before the day's postings start. The assistant, however, is required to total the day's checks and deposits, which he has entered on adding machine lists, and these amounts must settle with the tellers' figures. The assistant bookkeepers also give the general ledger bookkeeper a list showing the totals of the day's work, which are verified by comparison with the items reported in the tellers' settlements. After the day's work has settled, the paying teller's assistant cuts the checks,

usually with a cancelling machine which punches the word "Paid" and also the date.

The method of computing interest on depositors' accounts is closely allied to the ledger, the plan recommended being that of allowing interest on the daily balances and of using an interest slip arranged to show each depositor's daily balance for a period of six months.

The interest slip is a sheet $9\frac{1}{2}" \times 10\frac{1}{2}"$, with six vertical cash columns, each with thirty-one lines, and headed with the names of six months, to correspond with the semi-annual periods at which interest is allowed. Each deposit account has a separate slip. At the bottom of the slip is a space for the depositor's name and a space in which the interest allowed for each month is entered and the six items are totalled at the end of the period. A new set of slips is made out every six months.

The slips are arranged alphabetically to correspond with the order of the accounts in the ledger. They can be punched along the top margin and kept in any binder which permits of the sheets being readily inserted or removed.

The bookkeepers begin the morning's work by changing the previous day's balances on the interest slips, while the assistants are engaged in sorting and filing the checks and deposit slips.

Each bookkeeper on the interest slips of a ledger other than his own makes the necessary changes in the last balance of each account affected. The new balance is entered on the line for the day of the month on which the change occurs. A blotter is inserted at each slip on which the balance has been changed.

After all the changes are completed, the interest slips are returned to the bookkeeper to whose ledger they belong. The new balances are read off by the assistant bookkeeper, and if the postings in the ledger and the changes on the slips have been correctly made, the balances in both must agree. When the items differ, they are examined and the necessary corrections made. By this system each balance is separately struck by two persons, and only in case of the same error being made by both can a mistake pass unnoticed.

Interest on depositors' accounts is calculated for each month,

THE MODERN TRUST COMPANY.
DAILY BALANCE AND INTEREST SHEET.

	NOVEMBER	DECEMBER	JANUARY	FEBRUARY	MARCH	APRIL
1				1		
2				2		1
3				3		2
13				13		3
14				14		13
15				15		14
29				29		15
30				30		29
31				31		30
Total						31

MONTHLY INTEREST SUMMARY

November	
December	
January	
February	
March	
April	
Total	

ACCOUNT

and the result is entered in a monthly interest summary at the bottom of the slip. The method used is to allow one day's interest on the total of daily balances for the month. If the balance in the account does not change during the month, it is multiplied by the number of days it remains unchanged, and the result, added to the balance on the first day, gives the total sum on which interest is to be allowed. The amount of interest is found by reference to a table described below. When the balance changes each day in the month, the balances are added, and interest is computed on the result. When the balance remains unchanged for any given time, it is multiplied by the number of days it remains stationary, and the result is pencilled on the interest slip just above the succeeding change in the balance. This procedure is repeated as often as required, and the total figures of both the changing balances and the multiplications covering the days when the account was unchanged, give the total to be used as the basis of the interest calculation.

The interest table gives one day's interest at the rate allowed, on a basis of three hundred and sixty-five days to the year. The table appearing on page 112 shows interest at two per cent.

When varying higher rates are occasionally allowed, the interest is first computed at two per cent. For three per cent. the result is increased one-half; for four per cent. it is doubled. It is customary to credit interest to the depositor's account at a date somewhat later than the period actually covered. This is done in order to give time to make the interest calculations. In large companies interest is usually credited in the various ledgers at different dates. The general practice is to allow interest semi-annually.

The pass-book settlement system is being superseded by the monthly statement plan under which a statement¹ showing the total daily deposits and checks paid, with the balances on the first and last days of the month, is sent with the cancelled checks by mail to the depositor. Sometimes a form of receipt acknowledging the correctness of the account rendered is enclosed together with a request that the depositor sign and return the acknowledgment. Whether the receipt is used or not, this plan is a much more effective

¹ See page 107.

INDIVIDUAL DEPOSITORS' INTEREST TABLE

TWO PER CENT INTEREST ON DAILY BALANCES

One Day Interest at 2% per annum on basis of 365 days to a year

1 to 91	.00	31,000	1.70	66,000	3.62	100,000	5.48
92 to 273	.01	32,000	1.75	67,000	3.67	200,000	10.96
274 to 456	.02	33,000	1.81	68,000	3.73	300,000	16.44
457 to 638	.03	34,000	1.86	69,000	3.78	400,000	21.92
639 to 821	.04	35,000	1.92	70,000	3.84	500,000	27.40
822 to 1,000	.05	36,000	1.97	71,000	3.89	600,000	32.88
2,000	.11	37,000	2.03	72,000	3.95	700,000	38.36
3,000	.16	38,000	2.08	73,000	4.00	800,000	43.84
4,000	.22	39,000	2.14	74,000	4.05	900,000	49.32
5,000	.27	40,000	2.19	75,000	4.11	1,000,000	54.79
6,000	.33	41,000	2.25	76,000	4.16	2,000,000	109.59
7,000	.38	42,000	2.30	77,000	4.22	3,000,000	164.38
8,000	.44	43,000	2.36	78,000	4.27	4,000,000	219.18
9,000	.49	44,000	2.41	79,000	4.33	5,000,000	273.97
10,000	.55	45,000	2.47	80,000	4.38	6,000,000	328.77
11,000	.60	46,000	2.52	81,000	4.44	7,000,000	383.56
12,000	.66	47,000	2.58	82,000	4.49	8,000,000	438.36
13,000	.71	48,000	2.63	83,000	4.55	9,000,000	493.15
14,000	.77	49,000	2.68	84,000	4.60	10,000,000	547.95
15,000	.82	50,000	2.74	85,000	4.66	20,000,000	1,095.89
16,000	.88	51,000	2.79	86,000	4.71	30,000,000	1,643.84
17,000	.93	52,000	2.85	87,000	4.77	40,000,000	2,191.78
18,000	.99	53,000	2.90	88,000	4.82	50,000,000	2,739.73
19,000	1.04	54,000	2.96	89,000	4.88	60,000,000	3,287.67
20,000	1.10	55,000	3.01	90,000	4.93	70,000,000	3,835.62
21,000	1.15	56,000	3.07	91,000	4.99	80,000,000	4,383.56
22,000	1.21	57,000	3.12	92,000	5.04	90,000,000	4,931.51
23,000	1.26	58,000	3.18	93,000	5.10	100,000,000	5,479.45
24,000	1.32	59,000	3.23	94,000	5.15		
25,000	1.37	60,000	3.29	95,000	5.21		
26,000	1.42	61,000	3.34	96,000	5.26		
27,000	1.48	62,000	3.40	97,000	5.32		
28,000	1.53	63,000	3.45	98,000	5.37		
29,000	1.59	64,000	3.51	99,000	5.42		
30,000	1.64	65,000	3.56	100,000	5.48		

safeguard against error and fraud than the pass-book settlement can be. Furthermore, as a convenience to depositors it promotes goodwill in favor of the banks and trust companies adopting it.

Where pass books are used they should be settled frequently; if the accounts are active, at least once a month; if inactive, after each interest period. Verification of the accounts by the depositors is one of the best safeguards against error. When the pass book is settled, the balance shown should be compared with the ledger balance, and both should be initialled by the controller or some one outside the bookkeeping department.

Perhaps at no point does a trust company run greater risk of loss by fraud than through its accounts with depositors. As a rule no acknowledgment is required from the depositor of the receipt of cancelled checks or of the correctness of the balance as shown in the settled pass book or statement rendered. When a trust company without question hands out a depositor's cancelled checks to any one who may call for them, it can hardly claim that due diligence has been exercised should the depositor suffer a loss. A rule requiring the delivery of settled pass books and cancelled checks to the depositor or his duly authorized representative only, should be strictly enforced. In addition, receipts should be taken in a form that will relieve the company from liability for errors not reported by the depositor within a given time.¹

Cancelled checks are filed alphabetically and are returned to the depositor with the monthly statement or each time the pass book is settled, only the total of the paid checks being entered, while the separate items are listed on an adding machine slip which is returned with them.

The deposit slips are generally filed alphabetically and for given periods. This method is on the whole more satisfactory than filing each day's slips together, as is sometimes done. It is more often necessary to refer to all the slips of a given account than to a day's work.

Special conditions often require modifications of a general system, and in caring for special sorts of accounts it is sometimes necessary

¹ See "Cancelled Bank Checks," by Charles W. Reihl. *The Bankers' Magazine*, Vol. LXIX, p. 920.

to provide additional machinery. Thus, inactive accounts may be kept in a supplementary ledger, the total only being carried as a single item in the main ledger. The object of this is to facilitate the taking off of trial balances. When a company is the depository of court funds, these accounts are sometimes carried in a special ledger. Such exceptions to a general rule or system should, however, be as few as possible.

When an overdraft is not discovered till the check has reached the bookkeeper, he at once—before posting—reports it to the paying teller. If the item is to be returned unpaid, the cut in the check is guaranteed by the teller or proper officer, and it is sent back to the bank which presented it. If the check is paid, the overdraft balance is posted in red in the ledger, and the depositor is notified. It is customary to have a printed form of overdraft notice, often in such type and color as to attract attention and warn the depositor of the seriousness of the offence. It is wise to have all overdrafts posted in a conspicuous place in the bookkeeping or tellers' room, to prevent their being overlooked or forgotten.

No ledger entry should be permitted without the proper authority. This authority should be vested in some officer, but not in either the tellers or bookkeepers. This rule should also apply to so-called "star entries" or correcting entries, which are starred on both sides of the account in the ledger to indicate that the item is not to be shown in the pass-book settlement. Star entries are often used when an item taken as cash has been returned unpaid and charged against the depositor's account, but is afterward paid. In this case the original entries in the pass book and ledger stand, while the later ones charging the account, and again crediting the item, do not appear in the pass book or monthly statement. Deposit and charge slips used for these purposes are often printed with a large red star to indicate their nature.

It is wise to carry in stock an assortment of check books varying in size from fifty to five hundred checks each. Those of fifty checks each should be one to a page, attractively bound and of pocket size. The larger books should have two or three checks to the page. By having large quantities of checks printed at a time, the cost

can be kept down and they can be bound as needed. Safety paper, while more costly, affords a measure of protection and should be used.

It is good policy to be liberal in the matter of printing the depositor's name on his checks, and in having them numbered. The expense is slight, and the favor conferred is generally appreciated.

When the depositor insists on having a special form of check, he should be required to pay for it, unless the size of the account justifies the expenditure. Included among the standard checks should be a two or three signature form, for use in cases where more than one signature is required.

Loose counter checks, with perforated stub attached to be torn off and retained by the depositor, are provided for the use of those who desire to withdraw funds in person, but who are without their own check books. The words "counter check" are printed across the face of the check.

It is a growing custom among business houses to carry columns in their cash books for bank deposits and checks, thus dispensing with the use of the check-book stub. Expense can be saved by providing checks either loose or in pads for such depositors. Other business firms use their own forms of voucher or voucher check in the payment of their accounts.

RESERVES

"I was one of those who had the fallacious notion that ten or twenty per cent. cash in bank was just as good as in your vaults. I have had practical experience that in one hour — yes, in half an hour — disillusioned me of that notion. In half an hour there were 500 people at the doors of the institution that I have the honor to represent, demanding their money, and in another hour there were 5000. And that reserve which we have all been shooting at, which was a thousand miles away, was mighty poor satisfaction to the fellow who had his money in our institution."¹ Plain words, these, and fearless, to be spoken by a successful trust company

¹ Transactions Trust Company Section, American Bankers' Association, 1904.

president in a gathering of trust company representatives. And the fact that the panic was successfully averted does not lessen the force of his statement.

A trust company which does not receive deposits, but confines itself to corporate and individual trust business, has small need of a cash reserve. Almost all trust companies, however, receive deposits payable on demand, and do more or less general banking, and the question of reserves is as vital to them as to the banks.

In order of availability in time of need, the reserves of a trust company may consist of cash on hand, cash on deposit elsewhere, paper eligible for rediscount, demand loans, and investment securities.

The great majority of everyday transactions are in credits, not money. So long as public confidence remains, the cash itself is not thought of — this confidence lost, a panic results, and nothing but the actual cash will suffice.

The danger of a trust company's depending entirely on its balances carried elsewhere is that panics are apt to occur in times of money stringency, when the banks themselves may find it difficult to meet sudden calls for large amounts. "The experience of 1893 sufficiently proved the system of redepositing bank reserves in other banks, subject to demand, to be, as Professor Amasa Walker described it many years ago, the most explosive element in American banking."¹ Some financial institutions carry deposit accounts in other cities as an offset to local conditions. Another expedient is to open a special gold account with a national bank, the deposit being returnable on demand and in kind. A small return is received on the amount of the deposit, and the gold may be considered as part of the reserve of both bank and trust company. This plan, too, has its weakness in time of panic.

If a cash reserve is a necessity for institutions in the national banking system,—and this fact is universally admitted,—there seems to be every reason why the trust companies should be required to carry fixed reserves in their own vaults, not so large as the national banks, because their accounts are far less active, but commensurate with safety and sound banking principles. The states in which the

¹ Alexander D. Noyes, *Political Science Quarterly*, Vol. XVI, pp. 248-261.

trust companies have reached the highest development are taking independent action toward this end. The present trend of legislation is to require a minimum reserve, and such laws should in the end benefit the trust companies and make for financial stability.

Where trust companies have been admitted to membership in clearing house associations, definite reserve requirements must be observed. The conservative attitude of the clearing house associations in requiring ample reserves has deterred many trust companies from applying for admission. Each year, however, sees more trust companies joining these associations, to the manifest advantage of all concerned.

The reserve problem which is so serious for trust companies independently organized is simplified for those institutions which are members of the Federal Reserve system. The Federal Reserve Act prescribes that trust companies and state banks which become members shall maintain reserves equal in amount to those required of national banks, viz. 3% against time deposits and 7% of its demand deposits if not in a reserve or central reserve city.

Ten per cent. of its demand deposits is required if in a reserve city, except that if located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits such bank may, upon the affirmative vote of five members of the Federal Reserve Board, be permitted to maintain 7% reserves against its demand deposits.

Thirteen per cent. of its demand deposits is required if located in a central reserve city, except that if located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, such bank may, upon the affirmative vote of five members of the Federal Reserve Board, be permitted to maintain 7% or 10% reserves against its demand deposits. No reserves are required against government deposits.

CHAPTER VI

BANKING DEPARTMENT (*Continued*).

LOANS AND THEIR RECORDS

THE profitable employment of deposits and other idle funds is an important phase of the trust company's business. If interest is allowed on deposits, it is particularly necessary that the company should be receiving an adequate return. As deposits can be withdrawn at will, investments which have a long period to run can be used only to a limited extent. The larger proportion of such funds must be in short-term investments, either acceptances,¹ bonds nearing maturity or loans secured by collateral. The president and board of directors usually make general rules as to the class of obligation which is taken. It is, of course, not possible for these officers to pass on each individual transaction. Subject to their rulings, the treasurer is responsible for the making of loans. In large companies even this officer may have to delegate his authority. In special cases, when good loans of a type not usually accepted are offered, he often finds it wise to secure the approval of his superiors before making a final decision.

The loan clerk is intrusted with the details involved in the making and payment of loans, changes in collateral, and the care of the securities themselves. The position is an exceedingly responsible one, and demands speed, accuracy, and judgment, as well as familiarity with the fluctuations of the market.

It is customary to make loans either "payable on demand" or for a period of from four to six months, although occasionally the time is extended to a year or more. It is the part of wisdom to make the period moderately short, as large withdrawals of deposits may at any time necessitate the calling in of loans. Sometimes the company itself must become a borrower in order to meet large

¹ See page 379. Commercial paper.

payments when money is scarce and a sudden contraction of its loans might have disastrous results.¹ The use of clearing house certificates has even been found necessary in times of severe financial stringency.

In New York a demand loan is understood to mean just what the term expresses,—an obligation payable without notice, according to the will of either lender or borrower, which not only can but quite probably will be called, and when this happens payment must be instantly made. In other parts of the country, the right to call demand loans is less frequently exercised. Indeed, certain classes of borrowers seem to consider that a demand loan gives them the privilege of payment at will, but denies the corresponding right to the lender. Where this is the case, a higher rate should always be charged than for a strictly call loan, as the obligation is really a time contract for an indeterminate period.

When loans are to be called, the borrower should be given as long notice as possible; for when funds are scarce, even the strongest house may find that it takes time to get the required sum. Judgment should be used in deciding which loans to call, and the amount needed should be divided *pro rata* among a number of borrowers rather than obtained by calling in the entire loans of a few.

The practice of discounting paper varies not only among different trust companies but in various sections of the country. Where trust companies act under a general banking law giving wide powers and enabling them to transact a commercial banking business, discounting of unsecured paper is frequent. In other states it is not permitted, although practically the same result is often obtained through the purchase from a third party of notes which have already been discounted. This difference is recognized by the laws of certain states.

In loaning on collateral, the two important considerations are the marketability of the collateral and the name of the maker of the note. Loans should never be made to irresponsible people or to strangers. The danger of loss from loaning on forged or stolen securities is practically eliminated when the borrower's name as well as his collateral is of value. On the other hand, the borrower should

¹ See page 152. Rediscounting.

remember that when he borrows and the note includes a clause permitting rehypothecation, as it usually does, he surrenders his securities to the lender, who may dispose of them without the knowledge of the trusting client. It is therefore as much to the advantage of the borrower to deal with a thoroughly responsible lender as it is to the trust company to have only reputable names on its loan ledger. The most desirable borrowers are usually bankers, brokers, and those engaged in railroad, commercial, or other legitimate enterprises. The speculator should be handled with care, and his line of loans should never be allowed to exceed an amount for which he is undoubtedly good. In times of inflation, particularly, future bad losses can very easily be contracted by loaning too largely to individuals who have not sufficient capital to finance the operations for which they have become responsible.

Loans to officers or directors are to be avoided, and when made should be of moderate amounts and so amply protected that there can be no criticism from any source. Some of the worst failures of financial institutions have been caused by loaning, directly or indirectly, to those connected with the company. The laws of some states require all such loans to be reported to the State Banking Department, and specify an amount which shall not be exceeded. The law usually provides that such loans must not be greater than a given percentage of the capital stock.

In the selection of collateral, care should be taken to see that it either has intrinsic value or else that it can be readily sold. For collateral purposes it is not necessary to know so precisely the intrinsic value of the security as when purchasing outright for permanent investment. Marketability is the chief factor, as in case of default the collateral would be sold at once. A security that has a broad market is the best type of collateral. Thus thousands of shares of a good railroad stock can generally be sold without materially affecting the price, while the forced sale of issues which are little known may cause the price to break many points in transactions involving but a small number of shares.

It is a great help in making loans to have fixed rules as to the character of the collateral, and the amount of a given security which the company is willing to carry at any one time. Speculative securi-

ties can be taken with safety only when the margin is sufficient to admit of a sudden great fall in price. Securities of this sort should be marked at a low figure, and too large an amount of any one issue should not be accepted. There may even be danger in loaning too great an amount on inactive stocks which have undoubted value but a very limited market. In case of default on a demand loan so secured, the holder, in order to prevent loss, may be forced to buy in the collateral and to hold it for an indefinite period as an investment. In the same way, loans with mortgages on real estate as collateral security must be classed among the investments not readily convertible into cash in time of panic or sudden need.

In this country, railroad corporations doing an interstate business are required by law to make fuller reports than are corporations doing an industrial or manufacturing business. The earnings of a railroad, too, are not likely to fluctuate as violently as those of an industrial concern. Hence railroad securities form one of the most desirable classes of collateral. The securities of recently formed corporations should be loaned on to a very limited extent until the business is firmly established and has given undoubted proof of its profitable nature. Unfortunately, the declaration of dividends does not always mean that they have actually been earned. A certain conservative trust company that declined to loan on any but dividend-paying stocks, not only limited itself very greatly in the choice of collateral, but had adopted a poor test of value, as the bursting of more than one iridescent bubble has proved. Except when the security is of undoubted value, mixed collateral should be preferred to large amounts of a single kind.

The loaning officer should be in close touch with market values, and have every facility for securing prompt and accurate information.¹ A stock ticker should be within easy reach, and be supplemented by "inside" information, for stock quotations by themselves may prove anything but safe guides. The operations of a bull or bear pool may give the market a fictitious appearance, and a "wash sale" may fix the quotation in order to regulate loaning values, when to find a real purchaser the limit would have to be dropped many points.

¹ See page 217. Statistical department.

In times of panic and violent fluctuations in price, the situation should be closely followed and additional collateral be called for as necessary. If the borrower is financially sound, his margin can be allowed to drop considerably without fear of loss. With small borrowers and those who have exhausted their supply of available collateral, prompt and decisive measures must be adopted. To take the first loss is often in the end best for all concerned. Delay in selling out a weak loan through consideration for the borrower may be misplaced kindness. Sentiment is out of place in a falling market.

The amount of margin which is required varies with the sort of collateral. Thus, it is perfectly safe to loan very nearly the full market value of government bonds, and of most state and municipal securities. First mortgage railroad bonds can also be taken at a higher valuation than stock and other securities readily marketable, perhaps, but of less certain value. If the collateral is composed entirely of speculative stocks, a sudden break in the market may in a few hours—and before there is an opportunity to sell—turn a comfortable margin into an actual loss. In figuring margins it is important to bear in mind that in times of contraction in values, when securities are selling at a low level, a margin may be safe which in times of inflation and prosperity, when high records are being made, would be entirely insufficient to assure safety. In the former case, prices will probably stay within a moderately narrow range, while in the latter a sudden large shrinkage may occur.

The usual test applied to a collateral loan is that the value of the securities must have a margin equal to 20 per cent. above the amount of the loan. If the collateral consists of United States, state or municipal bonds the margin required may be as low as 10 per cent. In the case of securities which fluctuate widely or are of questionable value, a "loan value" is arbitrarily fixed by the lender and margins are calculated on the basis of this figure instead of the current market price. When the borrower is thoroughly responsible the usual requirement is simply 20 per cent. margin on good mixed collateral.

In loaning it is usual to have a form of note which gives the lender every possible advantage over the borrower, and leaves no

loophole by which the unscrupulous may attempt to avoid payment. The form of note here given embodies the provisions which, with varied wording, are found in the notes used by trust companies. The note should always be carefully filled in so that there may be no question at a later date as to any of the figures or descriptions which appear on the obligation. The loan clerk, before the money is paid out, makes a careful examination of the note, the collaterals, and the powers of attorney accompanying securities not payable to bearer. With stock exchange collaterals it is essential that the securities and power of attorney should be in such shape as to constitute a "good delivery," so that in case of necessity they can be readily sold. A state bank examiner in visiting a newly organized trust company was astonished to find that there was not a single power of attorney with any of the loans. On questioning the treasurer he found that this officer fondly imagined that the note gave all the required powers, and had not at all considered the possible need of making a transfer in case of sale. After the situation had been explained, the treasurer offered to have his counsel, who, it seems, had approved his method of loaning, prepare "some sort of a paper" to accompany the loans. He was not a little surprised to hear that such a paper formed an important part of the equipment of every bank and broker's office, and that he could obtain from his stationer an irrevocable power of attorney probably quite as effective as any document his counsel could devise.

The bookkeeping methods of the loan department should be as simple as possible. The following system furnishes an easy and accurate method and involves no unnecessary labor.

The machinery of the loan department consists of the loan ledgers, a collateral record, and a collateral index. The ledgers and collateral records should be of the loose-leaf type. Many companies combine the loan ledger and collateral record. It seems better, however, especially in the larger companies, to separate them, as the recording of loans and interest and of collateral changes are two entirely distinct operations.

A bound accession book is a valuable aid and should also be used. This book contains columns for the date, name of the borrower, kind of loan, rate of interest, description of collateral delivered or

19

have this day borrowed and received from

THE MODERN TRUST COMPANY

DOLLARS,

which ----- promise to repay at its office, in gold, with interest thereon at ----- per cent per annum on -----; ----- deposited as collateral security for the payment of this liability, and also as collateral for the payment of any other liability or liabilities to the holder thereof, due, or to become due, or which may be hereafter contracted, the following property, viz.: -----

with full power and authority to the holder in case of default in payment of said liabilities, or any of them, to sell, assign and deliver the whole or any part of the above securities or any substitutes therefor, or additions thereto, at any Broker's Board or at public or private sale, at the option of such holder at any time or times thereafter without advertisement or notice to the undersigned, and with the right of the holder hereof to become the purchaser thereof at such sale or sales absolutely freed and discharged from any equity of redemption and of all trusts and claims whatsoever, and after deducting all legal and other costs and expenses for collection, sale and delivery, to apply the residue of the proceeds of such sale so made to pay any, either or all of such liabilities as said holder hereof shall deem proper, returning the overplus to the undersigned; and any deficiency resulting from the sale of said securities,-----hereby promise to pay forthwith after such sale, together with interest thereon.

The holder hereof shall have the right, from time to time, under the conditions hereafter stated, to demand additional collateral security for the payment hereof, and if said demand is not complied with according to its terms, this obligation shall forthwith become due.

The holder hereof shall have the right to receive from the maker hereof other securities in exchange for those above mentioned; and shall likewise have full power and authority to pledge the foregoing securities, or any others that may be received under the terms hereof.

It is expressly agreed that additions to, reductions of, or substitutes for, all or any of the collateral securities above named and payments on account of said loan or increase of the same, or other loans made partially or wholly upon the said collateral may from time to time be made with the consent of the holder hereof, without affecting or impairing in any manner the validity of this contract, all such securities added or substituted being held with the same effect as if they had been herein originally pledged.

----- also agree that so often as the market price of these or subsequently denominated securities shall, before maturity hereof,

-----also agree that so much as the market price of these or subsequently deposited securities shall, before payment thereon, fall to a price insufficient to cover the obligations of the undersigned to the holder hereof together with ----- per cent margin added thereto, ----- will demand within two hours thereafter deposit with the holder additional security to be approved by said holder, sufficient to cover said amount and margin; and that in default thereof this obligation shall become instantly due and payable as though it had actually matured and all the foregoing rights to sell and transfer collaterals shall at once be exercisable at ----- risk in case of any deficiency in realizing proceeds.

amount of cash paid out, followed by similar columns covering the description of collateral or cash received. Then comes a series of narrow vertical columns in which the loan clerk places his initials as he makes the proper entries in the various books.

In the accession book each new loan is recorded, with each item of collateral and its cash value separately listed. Every payment and all changes in collateral are similarly recorded. From this record the history of each loan can be traced.

The demand loan ledger sheets are headed with the borrowers' names, and are arranged alphabetically. Following the title of the account is a ruled section, occupying the upper third of the page and devoted to the record of principal transactions. The columns in this section from left to right comprise the date, cash-book folio, loans, balance, date, cash-book folio, and payments. Each borrower's loans are treated as a running account, and the total is always shown in the balance column.

The lower two-thirds of the page is devoted to the record of interest charges and payments. The columns for charges are headed: from, to, days, on loans of, rate, and interest; for payments: date, cash-book folio, and amount. Each time the rate of interest or the principal of the loan changes, the facts are noted and the necessary calculations are made, thus keeping the clerical work at all times up to date, and leaving but one computation to be made in each open account at the close of an interest period or when the loan is paid off. The demand loan sheets are ruled alike on both sides, and when filled or when the loan is paid they are placed in a transfer binder. When a new loan is made to the same borrower, the sheet, unless full, is again transferred to the current binder. Bills for interest on demand loans are rendered at stated periods, and borrowers are encouraged not to make interest payments when making part payments on account of principal, although if desired this can readily be done, and the amount so paid will show as a payment offsetting the accrued interest.

In computing interest on loans, the actual number of days is taken. If the day on which the loan was made is included, the day of payment is not counted. These interest calculations are usually based on a year of three hundred and sixty days. When marking

DEMAND LOANS.

[illegible]

INTEREST

[illegible]

the rate of interest up or down, the bookkeeper takes the demand loan ledger and in the interest section he enters the date of the change, the new rate, and the amount of the loan. At the same time an assistant fills in the rate of interest and date on the notification slip which is sent the borrower. By having a set of envelopes already addressed, and the borrowers' names written on the slips, it is possible to change the records and get out notices very expeditiously.

Interest bills should be clearly and simply drawn, and should give the figures in such a way that the borrower can easily verify them. The practice in some trust companies of treating each note separately, instead of considering the whole loan as a running account, is confusing and adds enormously to the work of computing interest. The charges on the interest bill correspond exactly to the figures in the demand loan ledger, and the same data that appear in the ledger should be given on the bill.

In the case of time loans, a notice is sent the borrower shortly before the maturity of the loan, showing the amount of both interest and principal; in the case of commercial paper, the note having already been discounted, the face amount alone is shown.

For time loans, a modification of the demand loan sheet is used. As each loan runs for a definite period, there is, except in the case of an advance payment or overdue loan, but one interest calculation. When it is desired to show the interest accrued upon each loan, an entry is made at the end of each month charging the interest accrued for that month. The total of these items then forms the basis for the entry in the general ledger accounts. The columns, which run the whole length of the sheet, show the date when the loan was made, the date when due, the number of days, the rate and amount of the interest, the cash-book folio, and the principal of the loans. The aggregate of the open items in the principal column on all the time loan sheets is in balance with the time loan account in the general ledger. The remaining columns are devoted to the payments received, showing the date, cash-book folio, amount of interest, and finally the principal paid. Both sides of the sheets are ruled, and current and transfer binders are used as in the case of the demand loans.

and amount, followed by a section for "discount" in which columns are provided for date, days, rate, accrued, and payments.

The sheets in the collateral record are arranged alphabetically, according to the borrowers' names, with a cross index, if necessary, arranged as to due dates of time loans and bills receivable. The heading of the sheet shows the name of the borrower, and, in pencil, the total amount of his loans. The remainder of the sheet and its other side are devoted to an itemized description of the collateral. Columns are provided for the number of shares, the par value of bonds, the description of the security, the rate, and the total loan value. The last two can be noted in pencil as they are frequently altered. The stocks should be listed alphabetically when the loan is made, and space should be left for additional items; the bonds, similarly listed, should follow.

The collateral index or line ledger is a cross index of the collateral record, arranged as to securities, and is kept so that the total amount of each kind of collateral may be quickly ascertained, both to prevent taking too large a quantity of any given security and, in case of a drop in price, to locate rapidly the various loans affected. This record can be kept on cards or sheets: on the latter the totals can be added more quickly; the cards have the advantage of containing no "dead" matter. When cards are used, a blue card describing the security comes first and is followed by white cards giving the name of each borrower in alphabetical order and the amount. Where sheets are used, the description of the security is given, followed by the list of borrowers and the amount of the security with each loan. The arrangement in both cases is primarily as to the security, and secondly as to the borrower.

Whenever substitutions of collateral are made, receipts are taken on a "change slip" which shows the description and loan value of both the collateral withdrawn and that deposited in its place, with a statement that the new securities are subject to all the provisions under which the original collateral was deposited.

The arrangement of the notes and collaterals is often considered a matter of trifling importance, and they get little care after they are once securely locked within the vault. The usual practice is to put both note and collateral in an envelope, or to tie bulky securities

COLLATERAL RECORD

LOANS TO

DEMAND \$

TIME \$

TOTAL \$

[illegible]

SUBSTITUTION OF COLLATERAL

Loan \$. Date Maturity

. 19

Received from THE MODERN TRUST COMPANY
the following Securities:

	LOAN VALUE
@	\$
_____	_____
@	_____
_____	_____
@	_____
_____	_____
@	_____
_____	_____
@	_____
_____	_____
@	_____
_____	_____

Total \$ _____

And deposited in lieu thereof, subject to the same terms and conditions as collateral originally pledged:

_____	@	\$
_____	@	_____
_____	@	_____
_____	@	_____
_____	@	_____
_____	@	_____
_____	@	_____
_____	@	_____
_____	@	_____

Total \$ _____

in a bundle. It is more satisfactory to keep both notes and collaterals flat in portfolios. These should be made of two pieces of tar board, $10\frac{1}{2}$ " x $15\frac{1}{2}$ ", and should be held together by two loose straps of webbing, fastened with ordinary buckles. Manila sheets a trifle smaller than the outer boards are used to separate the loans of the various borrowers in each portfolio.

The closets in the vaults devoted to the loans should have shelves about $4\frac{1}{2}$ " apart, on each of which a portfolio rests. On the outside of the closet door should be large letters showing the loans contained in the closet, all of which are arranged alphabetically. The portfolios are given consecutive numbers, and inside the closet door is an index list of the alphabetical divisions in each portfolio. Within the portfolio, each sheet bears on the right-hand lower corner the name of the borrower, and, as it is in its alphabetical place, the loan can be quickly found.

Each borrower has an envelope, on which appear his name, the total amount of his demand loans and time loans, and a list of his collaterals. Within this envelope the various notes are kept. When payments on account are made, either a note of corresponding amount is cancelled or the credit is indorsed on one of the notes.

Below the envelope, flat and arranged alphabetically according to the name of the security, come the certificates of stock, then reorganization and other receipts, and at the bottom, bonds, divided into coupon and registered, also alphabetically arranged. All the collateral belonging to a borrower should be kept together. When figuring margins, the total amount of the loans, irrespective of whether they are demand or time loans, and the total value of the borrower's collateral are considered, because under the terms of the notes the collateral pledged with any one note is equally applicable to all other outstanding loans.

By keeping the portfolios moderately small and having a few extra ones in each closet, the system can be made to adjust itself easily to the changes which are constantly occurring.

MONEY RATE

The general public understands, more or less clearly, that the prices of most commodities are fixed by conditions of supply and demand, influenced by competition and various other factors.

When the commodity is money, however, more mystery seems to attach to the matter, and when the rate of interest to be charged on a loan is quoted with promptness, the individual borrower is often puzzled to know how the proper figure was decided on.

Speaking broadly, the laws of supply and demand govern the price of money. In England, the bank rate, fixed by the Bank of England, influences the market figures. When the Bank of England finds its reserve, which is practically the reserve of the nation, being drawn on too heavily, it raises the rate at which it is willing to loan, and this has a tendency to lessen the demands on it. On the other hand, when the supply of idle money accumulates too rapidly, the rate is lowered in order to attract borrowers.

In this country the Federal Reserve Banks under supervision of the Federal Reserve Board exercise the basic function of establishing rates of discount. These rates are proposed by the twelve reserve banks independently and the Board weekly considers these recommendations, harmonizes and authorizes or disapproves them. These "rates of rediscount" fix the cost to member banks of additional funds and hence influence commercial rates which may at times be the rediscount rates plus bankers' commission or endorsement fee. Rates may vary according to the maturity and character of paper. In the following discount sheet of the Reserve system a complete standard classification used some time ago is set forth. Of late a single flat rate has been preferred.

It will be observed, however, that there are no rates for "call" money or for collateral stock loans, these being unknown to the Federal Reserve system. The rates for these classes of loans are indirectly dependent upon the policy of Federal Reserve Banks although not direct derivatives of their rates. The rate for money lent upon collateral whether time or call is determined by the large financial institutions in the money centres, between which there is often a community of interest, if no closer relation. It may be possible to

DISCOUNT RATES.

Discount rates approved by the Federal Reserve Board up to Dec. 31, 1919.

Federal Reserve Bank.	Discounted bills (including member banks' 15-day collateral notes) maturing within 90 days, secured by —			Trade acceptances maturing within 90 days. ¹	Discounted bills, secured otherwise than by Government war obligations, also unsecured, maturing within —	
	Treasury certificates of indebtedness bearing interest at —		Liberty bonds and Victory notes		90 days (including member banks' collateral notes). ²	91 to 180 days (agricultural and live-stock paper).
	4¼ per cent.	4½ per cent.				
Boston	4½	4½	4¾	4¾	4¾	5
New York	4¾	4¾	4½	4¾	4¾	5
Philadelphia	4½	4½	4¾	4¾	4¾	5
Cleveland	³ 4¾	4½	4¾	4½	4¾	5½
Richmond	4½	4½	4½	4½	4¾	5
Atlanta	4½	4½	4¾	4½	4¾	5½
Chicago	4½	4½	4¾	4½	4¾	5½
St. Louis	4½	4½	4¾	4½	4¾	5½
Minneapolis	4½	4½	⁴ 4¾	4½	⁴ 4¾	5½
Kansas City	4½	4½	5	5	5	5½
Dallas	4½	4½	5	5	5	5½
San Francisco	4½	4½	4¾	4¾	4¾	5½

¹ Rate also applies to bankers' acceptances discounted by the New York and Cleveland banks.

² Rate on paper secured by War Finance Corporation bonds, 1 per cent. higher.

³ Rate of 4½ per cent. on customers' paper.

⁴ Rate of 5 per cent. for maturities 61 to 90 days.

NOTE.—Acceptances purchased in open market, minimum rate 4 per cent.

hold a fictitious rate for some time through a common agreement on the part of the chief lenders, but the price will always adjust itself in the end. Where, as in New York, funds are offered competitively on the stock exchange, it is supply and demand that fixes the rate. New York, being the chief money centre of the United States, regulates in a general way the price of money in all the other financial centres. When there is a good demand in New York, rates advance and idle funds are attracted from the interior. When rates fall, money is withdrawn.

The rates for call and time loans which are published in the newspapers often show considerable variations at different places: these figures are for brokers' loans, and the rates charged private

individuals are usually somewhat higher according to the amount and character of the loan. Individual borrowers sometimes feel that they are unfairly treated in being charged more than the published ruling rate for money, when, as a matter of fact, they would be quite unwilling to borrow on the "quick call" terms which are acceptable to the brokers, who have better facilities for securing funds at short notice.

The prevailing rate is changed either by the lenders one by one advancing or lowering the figures, or by their acting in concert and changing the rate simultaneously. The rate of interest on a time loan is fixed by agreement when the loan is made. In the case of call loans, when the rate is advanced the lenders notify the various borrowers of the change. When it is lowered, the lender either sends out notices in the same way or waits for the borrowers to request a reduction in rate. One method of maintaining a high rate in any particular place is to send surplus funds elsewhere, often to be loaned out at a much lower figure. Such a practice is sure to react in the long run and injure the commercial standing of the community. So large a proportion of business is done on borrowed money that the merchant or manufacturer who can procure funds most cheaply has a decided advantage over his competitors who are forced to pay more, and the short-sighted policy of withdrawing funds from the home community inevitably tends to drive business elsewhere.

INVESTMENTS¹

A trust company is known by the securities it buys.

Part of its capital is usually invested in the real estate, building, and equipment necessary for the transaction of the business. The remainder of the capital and the surplus form a permanent fund which can be invested in a very different class of securities from those in which deposits and other moneys liable to withdrawal at short notice are invested. Being liable for the acts of the company, the capital and surplus constitute a guarantee of corporate responsibility.

The Federal Reserve Board requires that fiduciary operations

¹ See page 360.

carried on by members of the Federal Reserve system shall comply with the laws regarding investments in the state in which the member is located. Where there is no state law the rules applicable to national banks control also in the case of state members.

Some states regulate by charter provisions or general statute the investment of a trust company's own funds. The restriction most often found, which applies to other corporations as well as to trust companies, is one limiting the amount of real estate which can be held. Trust companies usually are allowed to buy in real estate under foreclosure of mortgages or other obligations in order to avoid loss, but are required to dispose of such holdings within a limited period. This restriction is sometimes evaded by having an individual take title and give a mortgage for the full consideration or cost of the property. New York, Ohio, and a few other states specify in general statutes the character of trust company investments. Most of the states require reports of condition, including lists of investments, to be made to the state department having supervision. The publication of these reports is a valuable safeguard, and often discourages the purchase of questionable securities.

What the character of a trust company's investments should be, depends largely on the kind of business it transacts. The trust company which does principally a commercial banking or corporate trust business can take risks entirely unjustifiable for a company which executes chiefly individual trusts. In the transaction of a commercial banking business it is not unusual to make unsecured loans and to underwrite, in whole or in part, issues of corporate securities. Large profits have been made in this way and corresponding risks have been taken.

Where a trust company makes a specialty of the care of estates, the situation is very different. A wealthy man about to appoint a corporate executor or trustee will want to know how the company invests its own funds. The laws generally do not require bonds, as in the case of individuals acting in fiduciary capacities. It is therefore essential that the company's own affairs should be conducted with extreme caution, and the character of its investments be strictly scrutinized.

Government, state, municipal, and standard railroad securities,

and well-secured mortgages, are suitable for investment purposes. The securities of industrial corporations, being more liable to fluctuate in value, should only be held when of undoubted worth. Local conditions also have a bearing on the question of investments, and justify the purchase of different sorts of securities in different parts of the country.

An interest should never be taken in underwriting syndicates unless the intrinsic value of the securities has already been demonstrated. Membership in a syndicate to purchase and market an issue of municipal or state bonds, or the underwriting of an issue of bonds of a dividend-paying railroad, may be entirely proper if the company is ready to hold the securities underwritten as permanent investments in case of failure to dispose of them. It is never right to assume obligations on account of securities of questionable value, or of companies which have not demonstrated their earning powers. It might be folly to buy a certain security selling far below its face value, and yet become the part of wisdom to invest in that same security after its permanent value has been proven — even if the price has gone up many points in the interval.

If an interest is regularly taken in underwritings, it is not always possible to refuse an undesirable offering, lest the source of supply should be cut off. The trust companies which never take an interest in underwriting syndicates, and there are such, undoubtedly miss opportunities for making profits, but may be compensated by avoiding losses from depreciated and unmarketable investments, and by the deserved reputation and increased business they gain thereby. Securities which the company would hesitate to have known were in its vaults should under no circumstances be purchased. The knowledge that a trust company of good standing has bought a block of bonds will often sell an entire issue. The brokers, knowing well that no more forcible argument can be made to individual customers, are always anxious to place part of their offerings in strong hands, in order to dispose of the remainder — usually at advanced figures. In this way a trust company assumes a responsibility which reaches far beyond its own customers. A trust company cannot afford to be discredited in the eyes of the public, and errors in judgment may lead not only to direct losses but to dimin-

ished prestige and a consequent withdrawal of business. The company may make an actual profit by the purchase and later sale of questionable securities, and yet incur an intangible loss far greater, for those who failed to sell at the right time will not soon forget through whose example they were persuaded to buy. The best securities are none too good for a trust company's assets.

The general ledger contains accounts showing the total of each class of investment, while auxiliary ledgers for stocks, bonds, real estate, etc., give the details of the various securities.

A form of investment ledger, either bound or loose-leaf, which is suitable for all sorts of securities, has a space at the head of each page for a description of the security and shows the rate of interest, when payable, basis upon which purchased, principal due, with blank lines for other data. Below follows a space for principal transactions, with columns for date, par value, rate, amount paid, balances showing both par and book value, date, par value, rate, and amount received. This ruling occupies but part of the page, the lower part being devoted to interest items. Under "interest," columns headed "accrued" and "payments" are three times repeated, and each is subdivided into "date" and "amount."

The relative space devoted to principal transactions and interest items is regulated by the character of the investment. For permanent investments the principal section is made about half the length of the interest section, and as the latter has three sets of columns, there are six times as many lines for interest items as for principal transactions. When this form of ledger is used for temporary investments, the page is divided in half, thus giving three times as many lines to interest as to principal.

In buying and selling securities, it is important to distinguish between principal and accrued interest, and to charge or credit them to their proper accounts. If the accrued interest is not considered, the books may seem to show a profit, where in reality there has been a loss. The three following rules have been used satisfactorily to show the true condition as to investments and the income therefrom:

Compute interest on the issue each month at the income rate or basis on which the bonds have been purchased.

For example: the interest, if the bonds have been purchased on

a 4% basis, to be calculated during the first interest period at 4% of the book or cost value. Subsequently the 4% will be calculated on the increased (or decreased) book value.

Where an issue of serial bonds with more than one maturity has been purchased, it is necessary to determine by calculations covering the bonds of each maturity the income basis of the whole, and then proceed as above.

When the semi-annual or quarterly interest payment is received, the proportion belonging to income, as ascertained by the foregoing rule, is credited to income and the proportion belonging to principal is credited to the principal account. In the case of a bond bought below par, the accrued income will show more than the actual interest received and the principal account must be charged with the difference. To adjust the accrued interest and the principal accounts, the following journal entry is made at the end of each interest period:

(a) "Accrued Interest, Dr.
To Investments,"

or

(b) "Investments, Dr.
To Accrued Interest,"

according as the bonds have been purchased at (a) a premium, or at (b) a discount.

In order to determine the return from each class of investments, which are only shown in aggregate in the general ledger, a supplementary distribution book is used, in which the items in "interest accrued" are distributed according to the source from which they come. This book contains a date and total column followed by separate columns for the interest on each kind of investment: stocks, bonds, mortgages, real estate, demand loans, time loans, commercial paper, bank balances, etc. Each page has thirty-one lines numbered consecutively, and each day's receipts are entered on the line corresponding to the day of the month. The distributed items settle with the figures in the total column. At the end of the month the totals are shown and any deductions made. The net totals give the actual return on the various sorts of investment. A summary of the monthly totals, giving the return for each year, is kept at the back

of the volume. These totals can be worked out to show the average percentage of income earned on each class of loans or investments.

The securities should be kept in a fire and burglar proof vault, and a company in the country or in a small town, which does not possess adequate safeguards for their care, should keep at least a portion of its securities in a safe deposit vault in some large city.

Each class of securities should be separated in the vault, for convenience in handling. Registered and coupon bonds and stock certificates should be kept flat in portfolios. The registered bonds and stocks should be arranged in alphabetical order. The coupon bonds should be divided into two general classes,—flat bonds, whose coupons are printed on the same sheet as the bond itself, and book bonds, in which the coupons and the bond are on different sheets bound together. This distinction is made simply on account of the difference in size of the two sorts of bonds. Each class should be arranged primarily as to interest periods, for convenience in cutting coupons. The bonds of each interest period are arranged alphabetically. An index shows in which portfolio any given security can be found.

Mortgages are kept either in pasteboard boxes, expansion envelopes, or flat in portfolios.

The arrangement of securities is described in detail in connection with the trust department.¹

PURCHASE AND SALE OF SECURITIES

Some trust companies maintain a regular department for the purchase and sale of securities; many occasionally do business of this sort for customers and friends; while others execute no buying or selling orders except through a broker and make no charge for the service.

In some places the trust companies do not engage in the bond business in order not to antagonize the brokers and bankers, who are among their most profitable customers. Where a trust company does engage in this business, and particularly when it can state that it "offers and recommends for investment only such bonds as it has

¹ See page 308.

purchased outright after thorough investigation, and which it holds for investment on its own account," it is likely to command a respectful hearing from investors. If, however, it undertakes the flotation of projected ventures and the marketing of their securities, it assumes a responsibility out of all proportion to the possible gain.

Few investors, except among the very rich, make adequate examination into the value of the securities which they buy, and the recommendation of a trust company carries considerable weight. If the security is bought and later depreciates in value, the trust company will be considered partly responsible for the loss, even though no legal obligation was assumed. On the other hand, a bond department may be made not only a profitable part of the business, but a means of attracting customers to other departments.

The question of investments is a difficult one, and it is often a real comfort to the depositor to know that the trust company where he banks and keeps his safe deposit box can, in its bond department, provide desirable securities when wanted.

Some trust companies purchase real estate mortgages and issue their bonds secured by a specific pledge of these mortgages as collateral. It is customary to pay a lower rate of interest on the bonds than is received by the company on the mortgages. The difference between the rate of interest paid and received, forms the company's profit. In this case the company issues its own obligation and assumes a direct liability.

The securities held for sale are shown in one controlling account in the general ledger, and auxiliary ledger accounts are kept with each security and each customer. The auxiliary security ledgers are in the same form as those used for the company's own investments. Card indexes showing the securities on hand, and the prices asked and received, are also used. The market prices of the securities offered for sale should be closely followed in order to prevent the possibility of making sales either too far below or too far above the ruling price.¹ Lists of bond offerings are often sent to customers at stated intervals and may be used as effective advertising matter.

The officers in charge of the bond department should have a good knowledge of securities, and be prepared to assist investors in making

¹ See Chapter XI.

their purchases. A trust company should always urge its customers to look to the safety of their principal, even if this advice occasionally deprives it of a commission.

STOCK LEDGER AND STOCKHOLDERS' DIVIDENDS

A trust company which maintains a transfer department can properly care for its own stock there, both in the making of transfers and the payment of dividends. Otherwise, the banking department is often charged with this duty.

In the stock ledger the stockholder's name appears at the head of each account, exactly as the certificates are registered. Each page has divisions for certificates cancelled and certificates issued, with a balance column between. The subdivisions on each side of the page are: date, name, transfer folio, certificate numbers, and shares.

The blank stock certificates are numbered, and bound in books holding from one hundred to five hundred leaves. When cancelled, the certificates are usually pasted back on their original stubs.

Transfers are made according to by-law and statutory provisions. The transfer book is arranged so that each page will suffice for one or for several transactions.

In companies having a considerable number of stockholders, an alphabetical card index is kept, showing their names, addresses, the number of shares held by each, and directions as to payment of dividends. This index can be either the original permanent orders signed by the stockholders or a transcript.

Dividends are declared by the board of directors, payable on demand or at a fixed date, in accordance with the requirements of the by-laws. When a stock is listed, the rules of the local stock exchange as to the declaration and payment of dividends must be observed. The usual method is for the board to declare by resolution a dividend payable to stockholders of record on a date named, at least several days later than the meeting, and payable at a still later time. These facts are at once made public by advertisement and notice to the stock exchange, thus affording an opportunity for

the transfer of shares in time to receive the dividend. Stocks are often held for speculative purposes in bearer form indorsed for transfer by the seller, and are not actually transferred until just before a dividend payment.

It used to be the custom to close the transfer books for some time, and open them after the payment of the dividend; but this practice is being generally abandoned as it serves no good purpose, and the books are now usually closed only over night.

A dividend list is prepared, giving the number of each check, name of the stockholder, number of shares held, amount of dividend, to whom payable, and what disposition is to be made of the check. This serves as a stub, and loose, numbered checks are filled in from the data on the dividend list. The checks are, for convenience, specially printed or engraved. The following is a form very generally used:—

The proper indorsement of this check is a sufficient acknowledgment of the receipt of the dividend. Please deposit it, or have it cashed promptly.	No. _____ 19
	THE MODERN TRUST COMPANY
	Pay to the order of _____
	_____ Dollars,
	being Dividend No. 1, payable this date, on _____ Shares of the Stock of this Company, standing in the name of _____
	\$ _____ Treasurer.

When dividend checks are mailed a printed notice giving further information is often sent with them.

The old method of paying dividends and interest over the counter, and taking a receipt, has been almost entirely superseded by the acceptance of permanent mailing orders. Whatever advantage may have accrued from the stockholders visiting the company's building at stated intervals, did not compensate for the loss of time and interruption to regular business.

EXPENSE ACCOUNT

It is important that the authority for all expenditures should originate from a single source. One of the general officers should be responsible for making contracts and giving orders.

A card index record is kept of all outstanding contracts, such as those for advertising, coal, and telephones. For separate purchases order books are used, and all orders are given in writing on a regular form with the words, "Please send us with bill, and charge to

THE MODERN TRUST COMPANY	
To	Date
Purchase Order No.	
Please send us the following check books and charge to our account: —	
Number of books.....Checks to book.....Checks to page.....	
Paper Style Binding	
Numbered, commence	
Print on end of check	
Print on bottom of check	
Cost of Printing	
Cost of Binding	
Cost of Numbering	
Total (Signed)	
<i>Treasurer.</i>	
Date received	
Compared with invoice No.	
By	

our account," followed by an itemized list of the goods required. The order should also contain the statement that bills must in all cases be sent promptly and be distinctly marked with the number of the order. Either a stub or carbon copy of the order is kept. A separate order book can be used for each firm from which goods are regularly purchased, and special order forms are often a great convenience. A special form, used in ordering check books printed for depositors, prevents omissions and errors, and simplifies an otherwise troublesome detail. A supply of unbound checks is kept on

hand, and the prices for printing, binding, and numbering are fixed in advance by contract.

When goods are delivered, they are compared with the accompanying bill and the original order. If correct, the bill is marked by the stock clerk, and the price and date when received are noted in the order book. The bill is then entered and given a consecutive number in the record of expenses book, which corresponds to what is commonly known as the voucher record. When goods are being constantly ordered and received from the same firm, instead of entering each item separately, a statement of the total month's purchases is verified by comparison with the order book, and is then entered as a single item in the record of expenses. The unchecked items in the order book represent the goods not yet received. For convenience in finding these open items, their numbers are listed on the back of the last stub or page used during the month.

If a bill is to be paid at once to bearer, the proper entries are made in the record of expenses book, the bill is numbered and initialled by the disbursing officer, and is then paid by the teller, who takes the receipted bill itself as his voucher. If payment is to be made when no bill has been presented, an ordinary charge slip may be made out. The regular bills should be paid by check on fixed dates at least once a month. It is convenient to have special checks printed with the words "Charge Expenses Payable." Both the bill and check are given the same number, and after payment are filed together in numerical order. Instead of using the original bills, the data may be copied on special voucher forms. The vouchers are uniform and easier of reference, but involve more labor than using the original bills.

An effort should be made to get, on the last day of each month, statements of all purchases made within the month, so that the actual outstanding liability can be shown in the monthly balance sheets. A careful record of expenses is the first step toward a thorough analysis of the expense account. In commercial business and in manufactures, cost accounts are treated on an almost scientific basis. Maintenance and depreciation of plant, general expenses of management, as well as materials and labor, must be considered in estimating the cost of production. In financial business the problem

is simpler though no less important, yet few trust companies analyze their expenses at all, or if they do, they merely divide them into such general items as salaries, printing, stationery, postage, coal, etc., which afford no basis for determining the cost of the various parts of the company's business.

The fundamental division in an analysis of expenses should be into general costs affecting the entire business, and the special costs of each department. If so desired, the general items can be prorated among the different departments. For the ordinary purposes of a trust company this is, however, not necessary.

The record of expenses contains the itemized list of charges properly distributed. Two pages are required for the form. Commencing at the left-hand side are columns for the voucher number, date, name, total amount, and date of payment. The total of the unpaid items agrees with the balance in "expenses payable" in the general ledger. Then follows the distribution in a series of columns for the different kinds of expense, which settle with the total column. The following arrangement has been found a satisfactory one, and admits of modification to suit the details of each business:—

General Officers.—This item includes all officers whose services are not devoted to a single department. Not only salaries, but all expenses incurred on their account are included.

Directors.—Fees paid directors for board and committee meetings, examinations of assets, and expenses on their account are recorded under this head.

Legal Expenses.—Covers general legal expenses only, such as retainers paid counsel, and costs not chargeable to a separate department.

Telephone.—Large companies have private branch exchanges and employ one or more telephone operators. Rentals, calls not chargeable to a particular department, and wages are included.

Advertising.—Newspaper and all other forms of advertising are shown here.

Messengers and Watchmen.—Wages, uniforms and all other charges are included.

Lighting and Heating.—Covers wages of engineers, electricians, and firemen, coal, gas, electricity, etc.

Maintenance of Building.—All repairs to the building are shown under this item.

Maintenance of Equipment.—Repairs and renewals of furniture and fixtures are included.

Then follow the various departments, according to the organization and business of the company:—

Banking Department.—Salaries of officers whose whole time is devoted to the department, wages of clerks, cost of printing, stationery, postage, and all other items chargeable to the cost of maintaining the department are included. When separate departments for domestic and foreign banking are maintained, they are shown separately and may be further subdivided.

Savings Fund Department.—When managed as a separate department, this item is shown. It is often included in the banking department.

Trust Department.—When all trust business is transacted in the same department, one item is shown. When separate departments for corporate trust and for individual trust business are maintained, they are shown separately and may be further subdivided.

Safe Deposit Department.—This item is treated in the same way as the other departments.

Restaurant.—If a luncheon is provided for the officers and clerks, the total cost should be shown and itemized as to wages, groceries and provisions, meat, butter and eggs, fruit and vegetables, ice, milk, and maintenance of equipment. Where an allowance is made for meals when clerks are obliged to work overtime, another column, "clerks' suppers," should be shown.

Miscellaneous Expenses.—All items which cannot be otherwise distributed are included under this caption. This column should be used only as a last resort.

In order to include expenses in the daily balance sheet, the following is the mode of procedure:—

Each morning the total sum shown by the record of expenses for the current month is added to the amount on the credit side of the expenses payable account in the general ledger and the amount shown on the debit side of the expenses payable is deducted. The balance then represents the amount of outstanding liabilities to be entered on

the comparative daily balance sheet, as expenses payable. The total for the current month shown in the record of expenses, plus the balance of "expenses" in the general ledger, is entered as expenses on the comparative daily balance sheet and represents all liabilities incurred whether paid or unpaid. This is a short method equivalent to a daily entry through the journal.

At the end of the month, the total shown by the record of expenses is brought into the general ledger by a journal entry charging expenses and crediting expenses payable.¹

At the back of the record of expenses a summary is kept, arranged as to months and years. Here one can see at a glance how the expenses of one month or year compare with another, and any discrepancies or large changes can easily be detected and the causes investigated.

Supplementing the record of expenses is a card index giving the names and addresses of all firms appearing in the book. Following the name and address are the numbers of the firm's vouchers, arranged chronologically. This card index obviates the necessity of keeping a purchase ledger in which the account with each firm is shown in detail, and enables one to locate quickly the purchases from a given firm in the record of expenses or in the bills themselves.

PETTY CASH RECEIPTS

In large companies, a petty cash receipts book should be kept in which all petty items forming credits to the expense and other general ledger accounts are entered. The book should be closed at regular intervals, and the cash on hand be turned over to the receiving teller with a slip showing the proper general ledger accounts to be credited.

PETTY CASH PAYMENTS

There should be only one petty cash drawer. A fixed sum should be held as a permanent fund to meet petty expenses. This amount is carried as an item in the paying teller's settlement. Payments from this fund are made on bills or slips approved by the proper offi-

¹ See under General Ledger, p. 428.

cer. These vouchers are examined at fixed periods and, if correct, the expense account is charged with the total, and the fund replenished to its original amount. A record of these payments is kept in an ordinary cash book. This plan is much to be preferred to the common practice of having the paying teller pay these items, carrying them as cash, and charging them to expenses at the end of the month.

PAYMENT OF SALARIES

In trust companies, salaries are generally paid either once or twice each month. Monthly payments reduce the clerical labor to a minimum, and are customary in financial institutions where the employees are usually in a position to make their domestic arrangements conform to a monthly pay-day.

If possible, salaries should be paid by check, as this obviates both putting up the pay-roll and taking separate receipts. When a check is used, the employee's indorsement is all that is required. A list is prepared, showing the name of each employee and the number and amount of each check. Loose checks are written up from this list, which serves in place of a "stub" and is filed to show the details of the salary item in the expense account, so that it may be divided according to the charge against each department. Where salaries are fixed by definite rules, according to the position held, length of service, etc., there is no motive for secrecy; but where there is no uniform scale, the amount paid each employee is often considered an absolutely confidential matter, and the disbursing officer is obliged to use cash. When cash is used in making salary payments, it is well to prepare a list giving the name of each employee, followed by columns showing the number of each denomination of note and coin required, and the total of each payment. The total number of pieces of each denomination settle with the footing of the total column and prove the correctness of the pay-roll. In putting up the money, the largest possible denominations are used to make each amount. The envelope should be large enough to hold notes without folding, and should be numbered to correspond with the employee's sheet in the salary book. This salary book should be composed of loose leaves with an alphabetical index on the inside front cover. Each page is

headed with the name of the employee, the number of the sheet, and the following printed statement:—

“I acknowledge the receipt of the sums written opposite my several signatures below, for my salary in full to the dates stated.”

The remainder of the sheet is ruled in perpendicular columns for date of payment, amount, to what date, and the employee's signature. The amount of each payment should be shown in figures. Sheets no longer in use are removed from the binder and filed alphabetically. When the salary covers the calendar month, it is wise to “pay off” a day or two early, so as to avoid the rush of the last and first days of the month. Sometimes the salary period is to a fixed date during the month, such as the fifteenth or twentieth.

The salary should be put up the day before it is paid, and the payments should be made at the opening hour, so as to interfere with business as little as possible. When the salary is paid in cash, the employees should go to the disbursing officer's counter to receipt for and receive their envelopes. When payment is made by check, the disbursing officer can save time by visiting each department in turn, instead of having the employees come to him.

CHAPTER VII

MAKING USE OF THE FEDERAL RESERVE SYSTEM

ASSUMING that a trust company has for adequate reasons applied for and been granted membership in a Federal Reserve Bank, the question necessarily arises how such a company can best make use of its membership. This is a problem of general import to all members, but it has certain special bearings upon the position of the trust company member. The use of the Federal Reserve system which is common to all institutions may first be considered.

CONTROL OF RESERVE BANKS

It is essential in every organization that the members or owners should take a vital and active interest in the control and policy of the enterprise. This has been recognized in the Federal Reserve Act and elaborate provision has been made for insuring as democratic a method of managing and operating the Reserve Banks as is possible. Every Federal Reserve Bank is under the control of a board of nine directors of whom three are named by the Reserve Board. One of these three is designated as Federal Reserve Agent or local representative of the Board, besides being Chairman of the Board of Directors of the Bank. Six directors are chosen by the member banks, three being bankers and three business men primarily non-bankers. The members in each district are divided into three groups, under the direction of the Board, and two of the six directors (one banker and one business man) are chosen by the members in each of the three groups. Every member is thus sure of casting a vote in a group of electors small enough to give to every such vote a material influence in determining the choice of two directors. The member, new or old, must cast a ballot each year for its representative on the Board of Directors.

Abstention from voting, or lack of interest in the selection of such representatives properly places the member in a position of embar-

rassment when criticising the management of the Reserve Bank, while active participation and interest gives the right to demand proper representation. Since, moreover, relations between members and Reserve Banks are of a professional or semi-professional nature, and may involve direct and constant business dealings, the members' opinions are necessarily influential in the management of the Reserve Bank.

PROCESS OF REDISCOUNTING

The member will not derive primary advantage from connection with the Reserve system unless the function of rediscounting is more or less frequently and regularly performed. The holding and restoring of reserves constitutes the chief duty and service of the Reserve system and the principal advantage to members comes from their ability to establish and reestablish their reserves on a credit basis through this process. The Reserve Bank holds at least 35% of gold to protect its own deposits (i. e. the "reserve funds" of the member banks) and at least 40% of gold to protect its outstanding notes. The member brings or offers eligible paper for discount and the proceeds are credited to the member's reserve account which in turn is protected by the specie holding above described. The advantage to the member is found in the same conditions that make it desirable for an ordinary bank customer to obtain accommodation from his own bank. Credit or paper is converted into immediate resources and is thus rendered available for use as needed. While a member bank has the right to request that the Reserve Bank shall thus discount its paper, this "right" is based upon the possession of paper that is "eligible": in other words, every member, in order to get the advantage of membership, must possess a sufficient stock of eligible paper acquired either by directly discounting it for customers or else by purchasing it from others. The eligibility of its assets or paper is thus a matter of prime importance to every member bank.

ELEMENTS OF ELIGIBILITY

Eligibility to discount depends upon three factors—the maturity of the paper, the purpose for which it is created, and its form. The Federal Reserve Act provides that no business paper shall be ad-

mitted to discount except that which has a maturity of not over 90 days; except that (1) if drawn or issued for an agricultural purpose or based on livestock, it may have a maturity at the time of discount of not more than nine months, exclusive of days of grace, and (2) certain bills of exchange payable at sight or on demand are eligible even though they have no definite maturity. Again, paper will not be eligible unless it is the product of an actual commercial transaction and grows out of operations undertaken for agricultural, industrial or commercial purposes or whose proceeds have been used or are to be used for such purposes. This eliminates from eligibility all paper created to pay for investments or designed to facilitate the carrying of stocks, bonds or investment securities except bonds issued by the Government of the United States or by the War Finance Corporation. Collateral and speculative loans, loans on real estate, notes given for the purpose of obtaining capital or paying personal expenses are thus eliminated. A piece of paper, otherwise eligible, may have collateral to protect it. This does not render it ineligible but merely strengthens it. The fact that it is strong or undoubtedly "good," however, does not make it eligible. The Act gives to the Federal Reserve Board the power to define the various kinds of paper—a duty it has performed through its regulations.

TESTING OF ELIGIBILITY

The best method of testing, for the purposes of the Federal Reserve system, the eligibility of paper presented by a borrower, is that of requiring from him a satisfactory statement of condition. There are official but not prescribed forms for this purpose. Any good and fairly thorough form of statement chosen by the banker is usually acceptable to the Federal Reserve Bank and its officers. The statement should show that there is an excess of quick assets over liabilities and so afford good ground for the belief that the paper will be paid at maturity. If the statement shows that the customer is a continuous and heavy borrower and thus arouses the suspicion that he is using the Reserve Bank as a source of business capital, the Reserve Bank officers may feel warranted in refusing the offering of paper even though it comply with the technical requirements of

See instructions and
specimen form on back.

To be made in duplicate.

SECRET No.

TO THE FEDERAL RESERVE BANK OF NEW YORK,
Corner Nassau and Pine Streets,
New York, N. Y.

Dated _____ 198

The _____ Bank of _____ hereby makes application for:—

(a) The *rediscount* of notes, drafts, bills of exchange or acceptances aggregating \$ _____, which are listed in detail in the following schedule:

(b) An advance of \$ _____ upon its promissory note, secured by the notes, drafts, bills of exchange, acceptances or bonds or notes of the United States aggregating \$ _____ which are listed in detail in the following schedule:

You are hereby authorized to charge the rediscounts or advance above described to our account with you at maturity.

[illegible]

TOTAL

I, _____, Cashier of the _____ Bank of _____, hereby certify that to the best of my knowledge and belief, the original loans which are evidenced by the notes, drafts, bills of exchange or acceptances listed in the foregoing schedule, were made for agricultural, industrial or commercial purposes, and I further certify that, to the best of my knowledge and belief, the notes, drafts, bills of exchange or acceptances listed in this schedule are eligible for rediscount with or purchase by Federal Reserve Banks under the regulations of the Federal Reserve Board.

On this date the total amount of money borrowed by this bank on bills payable, rediscounts or otherwise, not including the rediscounts or loan hereby applied for is \$

Cashier

[Back]

PLEASE NOTE CAREFULLY

Please give, with respect to each name, commercial agency rating if available, and your estimate of present net worth, if your files contain such information. Indicate your estimate of the net worth by placing the letters "N W" before your figures. Insert the name of the agency at the top of the column if ratings are given.

Insert either a "D" or a "P" in the column headed "Depositors or Purchased" to indicate whether the paper was discounted for a depositor or purchased. The "D" should appear on the line with the name of the discounter.

Insert an "S" in the column headed "Statement," on the line with each party whose statement is on file.

Notes, drafts, bills of exchange and acceptances submitted for rediscount or as collateral should be indorsed in blank in the following form:

First National Bank, Blankville, N. Y.

Cashier

Each indorsement of a member bank should be signed by an officer whose signature and authority to indorse have been filed with this bank.

A promissory note of a member bank must have a maturity not exceeding fifteen days from date of discount.

Industrial and commercial paper must have a maturity not exceeding ninety days from date of rediscount, or from date of advance, if used as collateral.

Agricultural or live stock paper must have a maturity not exceeding six months from date of rediscount, or from date of advance, if used as collateral.

For further information regarding paper eligible for rediscount or purchase by Federal Reserve Banks, see Regulation A, Series of 1916, Federal Reserve Board and Circulars Nos 25 and 30, of this bank.

FEDERAL RESERVE BANK OF NEW YORK.

SPECIMEN FORM OF APPLICATION SHOWING DESIRED
ARRANGEMENT OF DETAILS

NUMBER FROM TOP	MAKER	ADDRESS	BUSINESS	EST'D NET WORTH OR RATING (X Agency)	MATURITY	DISCOUNTED OR PURCHASED	STATEMENT	AMOUNT
	INDORSER							
1	C. F. Scudder A. P. Crawford	Blankville For purchase of feed.	Farmer Feed & Grain	N.W. 10,000 50/75-1½	8/3	D S		\$ 50
2	F. J. Crockett	West Blankville For purchase of horse.	Farmer	N.W. 3,500	9/15	D		200
3	W. E. Richter Annie Richter	Blankville For purchase of materials.	Mfr. Baskets Wife	20/35-2 N.W. 1,000	7/3	D S		1,050
4	General Building Co. Jones Brick Co.	Brooklyn Blankville For purchase of brick.	Builders Brick Mfrs.	75/125-1½ 35/50-2	7/18	D S		4,500
5	Western Packing Co.	Chicago	Packers	Over 1,000,000	8/30	P S		5,000
6	United Woolen Co. A. B. Jones	Boston "	Mfrs. Woolens President	500/750-1	7/15	P S		2,500
7	James & Co.	Blankville For purchase of hardware for seasonal requirements.	Hardware	10/20-2½	8/10	D S		850
8	Morris Harvey	Blankville For purchase cattle. Collateral, ten head cattle.	Cattle Dealer Collateral, C/M on	2/3-3	9/3	D		500
9	A. F. Schmidt Co.	Blankville Collateral W/R's for 10,000 lbs. butter.	Butter & Eggs	35/50-1	2/87	D S		1,500
10	Home Furniture Co., Inc. A. S. Cox J. B. Cox Samuel Hood	Blankville For purchase of lumber and other materials.	Mfrs. President Secretary Physician	75/125-1 N.W. 25,000 N.W. 10,000 N.W. 40,000	8/15	D S S		7,500
								\$23,650

PLEASE NOTE SPACE LEFT BETWEEN EACH ITEM

eligibility. This question of acceptability or availability is easy for the member bank to determine, after a little experience, by merely applying the test of liquidity and remembering that, while it may easily enough be able to "take up" the paper should payment not be made at maturity, the Reserve Bank does not seek "collectibility" alone but desires to take for discount only that paper which is "self liquidating," i. e. based upon transactions which themselves provide the funds for meeting the paper that grows out of or is based upon them. Having tested the units of paper it intends to offer for discount by applying this criterion and having assured itself that the paper is technically available the member lists its intended offering upon a form such as is shown, accompanying the form with copies of the borrowers' statements.

There is an erroneous impression that paper to be offered for rediscount must be of large face amount. No basis for any such belief exists and Reserve Banks habitually discount paper of very small face. Recognizing that small borrowers may not be in position to file customers' statements, the Federal Reserve Board has, moreover, ruled that paper not over \$5,000 for any one borrower need not be accompanied by statements—although these are always considered desirable. Where no statement is furnished, the member certifies that the paper is, to the best of its knowledge and belief, eligible for discount under the Act and the Board's rules.

When paper has been listed as above explained it is handed in or mailed to the Reserve Bank.

DIRECT BORROWING

The Federal Reserve Act as amended not only provides for rediscounting paper but also permits direct borrowing by members. Such borrowing may be effected in either of two ways:

By the presentation of its own note made out in favor of the Reserve Bank and collateralized by "eligible paper" or by government obligations. Such notes cannot have a maturity of over 15 days.

By the presentation of a customer's note or the note of a non-member bank (endorsed) collateralized by government obligations.

In this case the note must have the statutory maturity. Originally the first of these methods was intended to provide a convenient means of getting short term accommodation while the second was intended to assist in floating the great government loans of the war. Both methods of borrowing have at times been somewhat perverted, being used to obtain funds for purposes never contemplated under the Federal Reserve Act. It is believed that such unsound practices have grown out of emergencies and will be discontinued. The best managed member institutions will certainly not count upon their use. They will, on the contrary, devote themselves to developing or purchasing and holding genuine eligible paper which will be employed as needed in obtaining accommodation from the Reserve Bank through the process of rediscounting.

HOW CREDIT IS GRANTED

As soon as the "offering" of paper, whatever its kind, has been received from the member of the Federal Reserve Bank it is referred to the proper officer and, having been duly examined and checked, credit is immediately entered on the member's account and wire advice is simultaneously given. There is no "red tape" or formality connected with the operation and it is the practically uniform testimony of member banks that they have found the service prompt, efficient and free from undue technicality. The principal objection that has been made relates to the requirement of a borrower's statement as a means of testing the character of the larger notes. From the standpoint of sound and efficient banking, however, the practice of insisting upon statements requires no defense. Unfortunate experience has often proved the error of the belief of some bankers that the filing of statements is useless and that there is a kind of intuition or instinct that can dispense with the need of exact analysis of credit. However this may be in the case of the individual bank, the requirement cannot be safely dispensed with by Federal Reserve Banks. Although they can, and do, make studies of the credit of individual borrowers at banks it will for a long time, perhaps always, be out of the question for them to possess an intimate knowledge of

the affairs of the smaller borrowers whose paper, equally with that of larger houses, is eligible for rediscount. There must therefore be a recognized and standard means of testing the character of the paper presented through the member banks as a basis for accommodation. The rediscounts of Federal Reserve Banks are not "loans" to member banks but are what their name indicates, and they must be made upon the same principles which govern the extension of liquid credit everywhere.

COLLECTIONS AND RENEWALS

When the rediscounted paper passes into the hands of a Federal Reserve Bank it has been endorsed by the member which presented the "offering" in somewhat the following form:

	Pay to the order of
The Federal Reserve Bank of	
Demand, Notice and Protest Waived	
(Name of bank)	
By	
	President (or cashier).

The presenting member bank is thus responsible for the payment of the paper and the Reserve Bank accordingly looks to it to collect at maturity. A few days before maturity (usually ten) the Reserve Bank, therefore, returns the paper to the member from whom it came, and when the date of maturity arrives the face of the note is charged off against the account of the member on the books of the Reserve Bank. Assuming that the member has a balance sufficient to permit the charge-off without impairing its required reserve, a remittance to cover the amount is not needed and the transaction is accordingly closed. The member may, however, not have a balance sufficient to provide for the payment of the paper and, in that event, a further discount of new paper or a renewal may be called for. If the member has abundance of eligible paper its best policy will be to make a new "offering" in exactly the same manner as the first, thus providing itself with more funds to meet the charge-off resulting from the maturing of the original offering. It may, however, not be in possession of such paper, or it may for some reason prefer

not to offer it. The question of a renewal is thus raised. It should be understood that there is no reason why such renewal should not be granted provided that the operation does not amount to a permanent or long period advance of capital to the borrower. Where the proceeds of the first borrowing have been used in current operations of trade and the new borrowing or renewal is called for as a means of repeating the same type of liquid transactions which led to the application in the first instance, there is the same ground for asking for the rediscount and (assuming that conditions at the Reserve Bank have not altered) the same reason for granting it as there was in the initial transaction. Federal Reserve Banks have accordingly granted renewals freely. After the great sales of Liberty bonds, and due to the development of the practice among members of borrowing liberally at Reserve Banks upon such bonds as collateral, the renewal of notes based upon bond collateral became somewhat of a menace. Effort to restrict renewals of this kind was successful, but did not apply to renewals of commercial paper requested for use in current trade operations. There is of course always a slight presumption against a renewal, based upon the fear that it indicates an unliquid condition or inability to pay, but this presumption may be dispelled by the presentation of proper evidence as to the condition of the borrower and the purpose for which he wishes to use the funds advanced to him. This again emphasizes the necessity of carefully prepared financial statements designed to show the borrower's position and the changes that may have occurred therein.

CLASSES OF PAPER

In much that has been said thus far, it may have seemed that but one type of discountable paper was under consideration — the so-called "straight promissory note." Such, however, is far from being the case. The classes of paper which may be considered eligible for presentation by a member bank for discount at a Federal Reserve Bank, and which therefore have been made the subjects of regulation by the Federal Reserve Board are for the most part as follows:

Straight promissory note.

Trade acceptance or commercial bill of exchange.

Collateral note.

Bankers' acceptance.

The straight promissory note needs no explanation at this point. It is merely the direct engagement of the borrower to pay a stipulated sum with interest at an agreed rate.

In the trade acceptance a seller of goods draws on the buyer who accepts the paper by writing his name below the word "Accepted" across the face. An acceptance, like a note, is merely the engagement of the buyer of goods to pay when due.

A collateral note is a promissory note secured by collateral. Contrary to the general supposition that the Federal Reserve system is antagonistic to the use of collateral notes (except where the collateral consists of government obligations) the fact is that the Federal Reserve Banks have no objection to collateral but rather welcome it. The Board has even in times past made special "commodity rates" which were designed to favor paper secured by collateral representing staple goods in suitable warehouses. Collateral, however, no matter how sound or strong it may be, does not render a note eligible. The quality of eligibility must be determined by the tests already set forth, regardless of the collateral or protection of the paper.

Bankers' acceptances are acceptances which have been made by a bank or banker on behalf of a customer under proper protection and with suitable agreements. These may be sold to or discounted by a member bank which may thus be carrying them in its portfolio.

The Board has fixed rates of discount which vary somewhat both with the character of the paper offered and with the maturity given it. A sample schedule of such rates as they existed at the Federal Reserve Bank of New York on February 25, 1920, is as follows:

COMMERCIAL PAPER

For advances not exceeding 15 days secured by all classes of eligible commercial paper, excepting bankers' acceptances, and for rediscounts of such paper 6%

LIBERTY LOAN BONDS AND VICTORY NOTES

For advances not exceeding 15 days on Liberty Loan bonds, Victory Notes and customers' notes secured by either of the foregoing, and for rediscounts of customers' notes, so secured, for periods not exceeding 90 days 5½%

BANKERS' ACCEPTANCES

For advances not exceeding 15 days secured by bankers' acceptances, and for rediscounts of same not exceeding 90 days.....5%

U. S. TREASURY CERTIFICATES OF INDEBTEDNESS

For advances not exceeding 15 days secured by U. S. Treasury certificates of indebtedness, and for rediscounts of customers' notes so secured not exceeding 90 days.....5%

Under this schedule it will be seen that the member might at times find some classes of paper considerably cheaper than others as a basis for getting accommodation at a Reserve Bank. This opened up a field for ingenuity and competitive ability in selecting and acquiring the most desirable paper to be held in portfolio pending presentation for discount. After 1922 a single flat rate for all kinds and maturities of paper was developed at most Reserve Banks.

BANKER'S ACCEPTANCE

In studying the relation of the trust company to the Federal Reserve system and the methods of using membership to the best advantage, careful study should be given to the banker's acceptance. There is nothing peculiar to the Reserve system in the constitution or use of the acceptance. Provision for its employment is made in many state banking laws. The Reserve system, however, has for the first time made the extensive use of the acceptance possible by creating the beginning of a general discount market. An analysis of this function of banking is therefore appropriate to the consideration of relations between Federal Reserve Banks and their members. The Federal Reserve Act allows members to accept on behalf of others to an amount equal to their capital and surplus. Of this acceptance power one-half may be exercised without communication with the Board while, on informal application through the Federal Reserve Agent of the district, the other one-half will ordinarily be granted to any sound bank. A trust company or other state institution which becomes a member is usually required to agree to abide by these general limitations upon its power to accept, but, granting that there is no express prohibition in the state law under which it exists, it may exercise such powers on the same basis as a member bank. It may then enter into agreement with customers to accept

for them. Such customers will be required to sign an acceptance agreement in approximately the accompanying form.

CUSTOMER'S ACCEPTANCE AGREEMENT OR TRUST RECEIPT

THE MODERN TRUST COMPANY	
_____ 19__	
CREDIT _____	DUE _____
We beg to hand you herewith draft No _____	
drawn on you by _____	
at _____ sight for \$ _____ against ship-	
ment of _____	

<p>We herewith request you to accept the said draft, and, in consideration of your so doing, we agree and guarantee to pay you the above sum, which includes your commission of % and interest at %, in bank funds current in New York two days before the maturity of your acceptance.</p> <p>We further declare that we have a good and free title to the merchandise described above, and that, after release to us, we will hold said merchandise and/or the proceeds thereof in trust for you as your property, and upon the understanding that we shall surrender the merchandise and/or the proceeds thereof, in whatever form they may be located, to you, or your agents, on your notification, to be applied against this or any other obligation existing on our part to _____</p> <p>the balance if any, to be returned to us</p> <p>We also agree to keep said merchandise at all times fully covered by insurance, loss payable to the Modern Trust Company.</p> <p style="text-align: right;">_____</p>	

The trust company will then undertake to accept drafts drawn upon it in the following form:

BANKER'S ACCEPTANCE

Drawn under Letter of Credit No. Dated

No. _____

\$ _____

New York.

At

pay to the order of Ourselves the sum of *eight* *Dollars*

Value received and charge to account of

TO

**THE MODERN TRUST COMPANY
NEW YORK**

SIGN OFFICIALLY.



For thus accepting the paper and so becoming liable for its safety the company may receive a commission of $\frac{1}{16}$ to $\frac{1}{8}$ of 1% according to market conditions and the risk incurred. As this rate is fixed on a 90 day basis it is equivalent to an earning of $\frac{1}{4}$ to $\frac{1}{2}$ of 1% per annum for the use of the company's credit. The acceptances of other institutions constitute a very desirable form of investment for the conservative trust company which desires to have in its portfolio some assets upon which it can quickly realize and at the same time obtain a moderate return upon its investment. Bankers' acceptances have the merit that they are freely bought by Federal Reserve Banks and that they can be realized upon at the lowest prevailing rate. They are thus a gilt-edged form of investment from every standpoint. The best banking theory and practice is opposed to current custom whereby banks and trust companies purchase or discount and hold their own acceptances.

KEEPING UP THE RESERVE BALANCES

While it would be entirely possible to use the Reserve Bank in a purely emergency way, seldom or never discounting with it but merely carrying a "dead balance" on its books, such a relationship cannot be profitable to the system or to its members. The normal relationship is not that in which the reserve balance is a reservoir whose waters are never touched except in case of emergency or disaster, but is that in which the balance represents the local accumulation due to the inflow of funds which are drawn off as fast as they come in or as they are needed. In order to fulfill this conception, it is necessary that the Reserve Bank be continuously useful to its members and this it can be only by serving as an efficient depository for the member's current receipts. In the member's own city, it is true, these receipts may be satisfactorily cared for through the medium of the local clearing-house, but outside that sphere the situation is quite different. In order to provide an easy and effective means of building up reserve balances, as well as to make the Reserve Bank most serviceable, the system accordingly undertakes to collect checks deposited with it by members and to place the funds to the credit of the members. The Federal Reserve Act provides that

each Reserve Bank may perform the functions of a clearing-house for its members, while the Board itself serves as a clearing-house between Reserve Banks. In pursuance of the authority thus granted, each Reserve Bank has announced a plan of collection. Under this arrangement, it receives checks on deposit, sends them to the banks on which they are drawn, and when a specified time has elapsed—sufficient to permit of remittances by the bank upon which the check was drawn—it credits the amount without charge to the depositing member. It is not necessary that such deposited check shall be limited to those drawn on members; any check drawn upon a solvent bank may be deposited and will be duly collected and credited, provided that such bank has first undertaken to remit at par without charge. Member banks in determining the amount against which reserves must be carried may deduct:

(1) From gross demand deposits, all Government deposits as defined officially.

(2) From the amount of balances due to other banks, the amount of balances due from other banks (except Federal Reserve Banks and foreign banks), including in the amount due from banks, out of town items placed in the mail and charged to the account of correspondent banks, items with a Federal Reserve Bank in process of collection, checks drawn on banks located in the same city, and exchanges for clearing houses.

Checks forwarded to a Federal Reserve Bank for collection or credit cannot be counted as part of the minimum reserve balance to be carried by a member bank with its Federal Reserve Bank until such time as may be specified in the appropriate time schedule. If a member bank draw against checks before such time, the draft will be charged against its reserve balance if such balance be sufficient in amount to pay it; but any resulting impairment of reserve balances will be subject to all the penalties provided by the act.

COST AND SAVING THROUGH FEDERAL RESERVE SYSTEM

The member bank or trust company will act wisely if it makes a close accounting of the profit and loss items in its operations directly resulting from Federal Reserve relationship. These, however, are

not always clearly recognized. Take, for instance, the case of a trust company with \$1,000,000 capital which is operating a commercial banking department in which there are being carried individual demand deposits of \$5,000,000. This company is obliged to have in its vaults or with other banks, under state law, a reserve of 18%. Of this it finds that 13% can be safely redeposited while it holds in its vaults as till money about 5%. This company now joins the system and is called upon to place its 13% reserve with the Federal Reserve Bank and does so, thus transferring it from a commercial bank which we may assume has been allowing interest of $2\frac{1}{2}\%$ per annum on the balance. The 13% reserve being \$650,000 (13% of \$5,000,000), the company has sacrificed $2\frac{1}{2}\%$ on \$650,000 or \$16,250 per annum, since the Reserve Bank pays no interest on balances. The company's investment in the stock of the Reserve Bank need not be considered since it returns an earning of 6% and may be expected to continue to do so. Practically therefore the immediate question of profit or loss is whether membership in the Reserve system affords any direct means of making up the loss in interest. There are three chief factors of offset that may balance this interest sacrifice. They are:

Saving through the use of the collection system. This system enables the company to abandon the practice of maintaining many banking accounts throughout the country (many of them non-interest bearing) in order to control collections. It furnishes a cheap and effective means of collection which may annually make a large earning or saving for the company.

Economical maintenance of reserve.—Under the older reserve systems the balance carried was "dead," in the new system it may consist of the proceeds of rediscounts. It might be argued that under the old plan a company could rebuild its reserve by borrowing from correspondents. Even if this was true, it was accomplished at a very much higher cost. Under the present plan, rediscounting is carried on at the lowest prevailing rates, which on the average are much lower than can be obtained from correspondent banks.

Abandonment of excess reserves.—In former times the maintenance of an excess over required reserves or the keeping of a secondary reserve was an essential factor in good banking. Today

neither is necessary because the Reserve Bank supplies the protection that was formerly afforded from these two sources.

In making this study of sacrifice involved in membership the benefit of the doubt has in all cases been given to the old system. As a rule the company whose hypothetical case is under consideration could not have maintained so large a part of its reserve on deposit at interest with correspondents. It would have drawn interest only on its collected funds—the proceeds of deposited checks that had been actually received—and these would have been much below the total reserve balance required by law. Moreover, such a company would rarely have been permitted by law to keep so large a part of its reserve as has been stated (13 out of 18%) with other banks. Under the laws of some states only $\frac{3}{5}$ of its required reserve could thus be kept, before the organization of the Federal Reserve system. The above comparison is unfair for another reason. The effect of the Reserve system has been to cut the amount of reserves required all over the country and the true basis of comparison is not therefore between a member and a non-member at the present day but between the position of a non-member to-day and that which it would occupy had the system never been organized. If banks had remained for the most part non-members the reduction of required reserves which has been effected under the system could never have been brought about with safety and conservatism. The value of the comparison is for the individual company which is still at liberty to choose whether it will or will not apply for membership. Experience is the final test of cost. Some state institutions have found their profits directly increased by 15% to 25% as the result of membership. The real question for the trust company is whether or not it is actually doing a considerable commercial banking business. If so, membership is likely to be a source of large profit rather than of loss or sacrifice.

SOME CURRENT PROBLEMS OF TRUST COMPANIES

So long as there existed a sharp line of division between the trust company and the commercial bank, the problem of the trust company in relation to banking in general and the Federal Reserve system in particular was comparatively simple. The situation was materially

altered when Congress provided for granting broad trust company powers to national banks, and it was still further modified when state legislatures followed this example by granting like authority to state banks. Trust companies were thus compelled to lose the special field of effort which had been allotted to them and to accept the competition of outside institutions, part bank and part trust company, as a permanent element in their problem. It might have been well had Congress chosen to maintain the older distinction between banking and trust functions, but such has not been the case, and on the other hand it must be remembered that many trust companies had for years past been active competitors in the general banking field.

The fact remains, therefore, that events are moving rapidly toward the development of a composite type of institution which will perform the functions of both the bank and the trust company. It will, no doubt, still be possible for a trust company to operate as an offshoot or dependency of a commercial bank, accepting business through transfer from the bank and turning to it for such service as foreign remittances and rediscounts, just as there will probably always be occasion for differentiation of function between institutions—some emphasizing one kind of service, others another—but the present drift is clearly toward a combination of functions. The modern trust company must accordingly recognize this trend and prepare itself to furnish in efficient form all those services that are currently asked by customers of commercial banks. Whether it wishes to do so or not, it will henceforward be compelled to give much greater attention to the banking side of its operations.

CHAPTER VIII

CREDITS AND CREDIT DEPARTMENT

INTRODUCTION

As trust companies recognize that membership in the Federal Reserve system is of no particular value to them unless they practically take up the function which the system is designed to promote, they will tend more and more to become holders of commercial paper which they freely offer for discount at Reserve Banks. They will then find it more and more worth while to undertake and perform for themselves all those banking functions for which in the past they have been inclined to rely upon neighboring or affiliated banks. Prominent among such functions is that of estimating, judging and dealing in credit on its own merit rather than on the assurance or guaranty of others. The trust company in order to assure itself an adequate supply of commercial paper becomes a creator of such paper through the process of discount and so, in the first instance, a dealer in it. This necessitates a well organized credit department—indeed such a department is really essential to proper participation in the Reserve system.

Every institution which carries on a commercial banking business is obliged by that fact to become a student of credit and credit conditions. It has been the custom of some trust companies in the past to invest funds which had been left with them as demand deposits in relatively long-term or “unliquid” securities, trusting to their reserves to meet any sudden demand and believing that in case of a severe strain they could undoubtedly get the aid of some neighboring or affiliated bank by hypothecating their securities. These expectations have often proven correct; in some cases they have been disappointed. Warned by the unfortunate experience of others, not a few companies have adopted the policy of buying in the open market some liquid paper, such, for instance, as the acceptances of well

known and recognized banks. They have thus reduced to a minimum their necessity for studying credit and have consequently felt justified in not organizing a real credit department or in leaving it undeveloped. Careful managers know that such a policy is unwise. First of all the plan of investing demand deposits in unliquid securities is dangerous in the extreme, whenever the demand deposits amount to more than a negligible fraction of the company's liabilities. When "gilt-edged" paper, such as bank acceptances, is too largely purchased as protection the return is unduly small. But more important still is the fact that a large and satisfactory line of "deposits" can never under ordinary conditions be built up by merely receiving funds. They must be created as the result of direct loans to customers; and since customers' paper to be live and active must be the outcome of commercial transactions involving the use of credit, every trust company which expects to do a large deposit business must organize an effective and thorough department for the study and testing of credit.

It is true that some banks and many trust companies of the older fashion prefer to make loans chiefly on the basis of their officers' personal and unsystematized knowledge of the business of borrowers. These are usually institutions of small capital and limited business opportunities. Even for them, however, the unsystematic and unscientific method is the expensive method, and the cost of a credit department would seem a negligible item, if compared with the actual losses, or failures to get new business, that result from its absence.

FUNCTION OF CREDIT DEPARTMENT

The function of a credit department is not that of granting, controlling or vetoing loans. That is a phase of executive responsibility in lending that can never be passed on to any department or expert, however capable. The credit department is a division whose duties are those of investigation and analysis, and which has for its object the collection and scientific arrangement of information relating to the conditions of commercial credit. Such information bears upon two classes of topics:

The credit condition and general borrowing power of the bank's customers, actual or potential.

The credit condition and general borrowing power of the community.

Neither class of information will be of much value save as studied and interpreted in the light of the other. Methods for the study of individual credit may first be analyzed.

BASIS OF CREDIT

No discussion of the theory of credit is needed for the present purpose. In practice the purpose of credit study is to reach a conclusion regarding the ability of a borrower to repay advances at a designated maturity. The test of sound credit from the banking standpoint is therefore merely *ability to repay promptly* and the basis of credit is *business liquidity*—the maintenance of ability to effect prompt payment. It should be noted that this test and basis while involving and assuming solvency, are not exclusively dependent upon the question of solvency. A perfectly solvent borrower may be a poor credit risk while a sound purchase of paper may be made from one who is likely to become insolvent. Solvency and a sound credit basis are usually, though not always, associated, but the one is far from assuring the existence of the other.

With this definition of the basis of credit it is clear that the credit department is called upon to study all facts that bear upon the business and financial position of a borrower. It must first ascertain what facts are important in determining the borrower's credit and from what sources they may be obtained. Such sources may be conveniently grouped as:

The borrower himself, his records and accounts.

The borrower's business associates, creditors, customers and rivals.

CUSTOMER'S STATEMENT

If the banker or lender could look into the minds of the borrower and his staff or have the same access to the books and records of the business that they have, he might not, in many cases, need to go

farther. Such complete knowledge or access is, however, impossible and accordingly the first question in any analysis of credit is: What data or information has the lender the right to ask and what can he get? Borrowers have long opposed giving to lending institutions full information as to the details of their condition, and have often held that the bank is entitled only to know that it is safe in advancing the funds requested. This is a restatement in another form of the theory already rejected — that credit is based on solvency. The borrower, pressed for information which he is unwilling to give sometimes offers collateral to protect the bank, apparently assuming that its desire for a knowledge of his affairs is based upon the fear that it may be unable to recover. The object of the bank, however, is not primarily to ascertain solvency — it assumes that — but the amount in which prompt repayment may be expected. This conflict of view, arising from the borrower's natural instinct of secrecy and his belief that he can do better for himself if the whole truth of his position is not known, generally ends in a compromise. Some borrowers, even on a large scale, have been able to resist the banker's demand for a statement of their condition but this resistance is decreasing in vigor. The modern borrower admits the right of the banker to have before him a statement of the borrower's business condition.

HELPING THE BUSINESS MAN

One of the functions of the efficient credit department is to help the bank's customers to better the conduct of their affairs. The credit department usually desires to have the customer's accounting carried on in such a way that the examination of his business is easy and that the data conveyed by him to the bank are reliable and obvious.

A good deal of progress has been made in recent years toward obtaining uniform and adequate accounting by inducing customers to invoke the aid of certified accountants in keeping their books and in rendering satisfactory statements. The credit department can do a good work in promoting the idea of sound accounting and statement preparation among customers. By so doing it greatly diminishes its own troubles in the testing of credits and in reporting upon condi-

BORROWER'S STATEMENT

CORPORATION.

STATEMENT OF _____

BUSINESS _____ ADDRESS _____

To MODERN TRUST COMPANY _____ New York, N Y

We make the following statement of all the assets and liabilities of this company at the close of business on (Date) _____ and give other material information for the purpose of obtaining advances on notes and bills bearing our signature or indorsement, and for obtaining credit generally on present and future applications

(PLEASE ANSWER ALL QUESTIONS AND FILL IN ALL BLANKS.)

ASSETS		LIABILITIES	
Cash on Hand and in Banks _____		Accounts Payable _____	
Accounts Receivable _____		Notes Payable to Banks _____	
Notes Receivable _____		Notes Payable to Others _____	
Merchandise _____		Deposits _____	
Other Quick Assets (Itemize) _____		Other Current Liabilities (Itemize) _____	
Quick Assets		Current Liabilities	
Land and Buildings _____		Mortgages _____	
Machinery and Fixtures _____		Bonded Debt _____	
Other Assets (Itemize) _____		Other Liabilities (Itemize) _____	
		Current and Deferred Liabilities	
		Capital Stock Preferred _____	
		Capital Stock Common _____	
		Surplus and Undivided Profits _____	
TOTAL		TOTAL	

Merchandise.

On what basis valued, cost or market? _____

Finished* _____

Unfinished \$ _____

Raw \$ _____

If any goods are on consignment, state amount and circumstances _____

Sales and Profits Last Fiscal Year.

Net sales \$ _____

Net profits \$ _____

Dividends paid \$ _____

Accounts and Notes Receivable.

State amount and circumstances _____

(a) If any are past due or doubtful _____

(b) If any are pledged _____

(c) If any amounts are due from directors, officers, employees, subsidiaries, branches, or similar sources _____

Bonds and Stocks. State general character and whether readily salable at value stated. _____

Insurance. Fire, on Buildings \$ _____

Merchandise \$ _____

Life, in favor of company \$ _____

Contingent Liability.

As indorser \$ _____

As guarantor \$ _____

No accounts or notes receivable have been sold, discounted or assigned with our indorsement or guarantee except as follows _____

Accounts and Notes Payable. If any are past due state amount and circumstances _____

During last fiscal year current liabilities were at a maximum (\$ _____) on _____
 and at a minimum (\$ _____) on _____

Mortgages and Bonds. State due dates of mortgages and on what assets a lien _____

State due date of bonds and on what assets a lien _____

Are mortgages or bonds a lien on any current assets? _____

If any other liens on assets, state amount and circumstances _____

Reserves and Depreciation. State what provision is made _____

We hereby certify that the foregoing figures are taken from the books of this company and that they and the statements contained on both sides of this sheet are true and give a correct showing of the financial condition of the company.

Signed this _____ day of _____ 19____ Name _____

OVERS

By _____
 (Please official title)

Borrower's Statement. Page 3

[illegible]

tions to the executive officers who are charged with the making of loans.

In many states there is a False Statement Act which imposes severe penalties upon any borrower who wilfully makes false statements for the purpose of getting credit. This greatly facilitates the work of the credit department and enables it to turn its efforts to obtaining statements which are scientific and lend themselves to careful analysis, instead of devoting itself primarily to "checking up" the accuracy of the facts contained in them.

Discussion and compromise extending over a series of years have led to general agreement on the chief elements of a borrower's statement. There are still differences of detail even among institutions of the best type but the general character of the data desired and obtained by well-managed banks may be seen in the sample financial statement form herewith submitted. This furnishes the basis for a comparative study of the principal factors relating to the condition of the applicant for credit.

ANALYSIS OF CONDITION

Such a financial statement and the data it presents are too complex to have much meaning from a credit standpoint until fully analyzed. In making this analysis the following points may be selected as of chief importance:

Solvency and general financial strength.—The customer's statement of course seems to show on its face that the business is a solvent, going concern. Were it known and admitted not to be solvent, it would not be an applicant for accommodation. The statement, however, throws light upon certain important phases of the problem of solvency. Of these the broadest is probably that of general financial strength. The net assets after liabilities are met represent the resources which the enterprise would possess after liquidation and which, therefore, must be relied upon to make good such deficiency as might exist in the event that any of the loans could not be fully collected or paid.

Relation between the liquid assets of the concern and current liabilities.—This is important from the banking standpoint because it

shows the power of the concern to meet its obligations on demand or at maturity, as the case may be. In those cases where the short-term assets of the concern are small as compared with its obligations, it may be assumed that the enterprise can meet its indebtedness only by obtaining an extension of credit, which means that either the lending bank or some other must expect to "carry" it until it reaches a point where it is able to liquidate. If its indebtedness is of a normal variety, representing intra-trade obligations, the case is quite different from what it is where the enterprise has been branching out in various directions and has a miscellaneous collection of obligations or risks which it may or may not be able successfully to meet, and of whose general character and effect it is not particularly well informed.

Another problem demanding very careful consideration is the special condition of the concern from the standpoint of the trade of which it is a member. Its merchandising aspects, the amount of stock it has carried, the relative amount of its sales and turnover, are all important indices bearing upon the amount of credit to which it is entitled.

Attention should also be paid to the relation of fixed assets to the volume of business. Some concerns are under-capitalized and others over-capitalized. There is always a temptation for a business concern whose field of operations is large, to make its borrowing at its bank semi-permanent, replacing maturing paper with new obligations from time to time and thus practically using the funds of the bank as a part of its capital. This is not a desirable situation for the bank because it means that the withdrawal of its advances may leave the borrower's business in a crippled condition. On the other hand, over-capitalization, the activity of the business being insufficient to afford satisfactory employment for its regular funds, indicates that the business is not growing and is accordingly subject to the dangers attendant upon a reduction of capital and relative decline in importance.

The analysis of condition may be carried to a very advanced point and may include careful comparisons not only with others in similar lines of trade, but also with the past conditions of the same concern. How far it is necessary or desirable to conduct such inquiries is

ANALYSIS OF BORROWER'S POSITION

NAME	NOT INCORPORATED					
ADDRESS	BROKER					
BUSINESS						
Auditor						
QUICK ASSETS						
QUICK LIABILITIES						
EXCESS QUICK ASSETS						
RATIO						
NET WORTH						
ASSETS						
Cash						
Receivables						
Merchandise						
Total Quick Assets						
TOTAL						
LIABILITIES						
Accounts Payable						
Notes Payable						
Total Quick Liabilities						
Bonds or Mortgage not yet in Cash						
Net Worth						
TOTAL						
Trade Acct's Disc'd						
Other Contingent Liab.						
Sales						
Net Profit						
Partners Withdrawals						
Maturity of Bonds						
OUTSIDE RESPONSIBILITY						
Insurance—Plant						
—Misc.						
Dun						
Bradstreet						

dependent largely upon the importance of the account and the method that has been arranged for handling it. If it is an important account and one which is subject to fluctuations growing out of changes in business conditions, it will be well worth while to study the changes scientifically and systematically. If it is a relatively small business whose condition varies only seasonally, comparatively little study may be required. As it grows and takes in more and more "business area" it becomes more and more susceptible of careful analysis based on the law of averages and involving the use of specialized classes of information.

A record entitled "analysis of borrower's position" shows in parallel columns the figures for succeeding periods and is kept primarily for the use of the officer responsible for making loans.

OTHER SOURCES OF INFORMATION¹

Seldom, if ever, will it be found that the credit department can content itself with purely internal sources of information. The business man is necessarily an optimist and even when he has given all the information he can about himself and his concern, it is desirable to apply to him the test of the critical judgment of outsiders. The best recognized of such outsiders are the regular mercantile agencies such as Dun's and Bradstreet's, whose reports are usually received by every bank. The reports of commercial agencies aim to study credit, not from the internal standpoint of the business itself, but rather from a trade point of view. The form upon which the individual business is asked to give information is as a rule only a beginning. The commercial agency gets its data from the businesses which hold claims against the concern under investigation, or at times from its customers. General information in the trade as to terms of payment, scope of operations, the legitimacy of business, reports on the outside undertakings of principals in the concern, and many other items can be collected and massed together in such a way as to throw light upon the soundness with which the affairs of the enterprise are being conducted.

Many financial institutions also employ investigators who work

¹ See page 234.

especially for them and whose function it is to gather data in much the same way as the financial agencies, although it is more special, technical, and in some cases perhaps more efficient. Such investigators work in the particular industries which are closest to the concern under investigation or among those houses which are in business relations with it. They thus get data that might otherwise be inaccessible and, their reports being semi-confidential, they are able to express themselves with greater freedom than the commercial agencies. They run some danger of misinformation or of gathering information which is tainted with a special motive, and the student of credit must make allowance for such vitiating factors.

COÖPERATIVE AGENCIES

Coöperative exchange of credit information has been developed perhaps to a higher degree in the United States than elsewhere through associations whose function it is to deal with questions of common interest in industry. Such associations frequently have a credit department and its duty is that of disseminating data as to the reliability of buyers. Thus, for example, an association of clothiers may arrange to interchange all information concerning certain buyers, so that it will not be necessary for any house to learn through unfortunate experience that specified buyers are not to be trusted. It is not always possible to get this kind of information. When banks are able to make connections with such coöperative agencies or trade sources, they have found them very valuable because the data obtained have generally been sifted by the experience of a variety of concerns.

A banker or lender of funds may have friendly relations with other banks, whereby a coöperative interchange of information is effected in much the same way. In this case a bank which had had difficulty in its relations with given individuals or had sustained losses therefrom would explain, upon request, what its experience had been. All such information must be taken with some grain of salt, to allow for personal or special difficulties of one kind or another.

USE OF CREDIT INFORMATION

When the credit department has obtained reports from all these different sources, it is very desirable to have the data carefully codified so as to make them of the greatest value to those who are charged with the duty of passing upon loans. The executive officers cannot spend much time in detailed examination, but the results must be placed before them in detailed form. This is one of the most important functions of the credit department. A plan which has been found desirable is that of first carefully sorting the information by names and establishing a folder for each name. In this folder will be put in successive order the customer's statement, the reports of financial agencies, and other data, including newspaper clippings, statements in trade journals, and the like. This creates a systematic file of information. It may be bound together by any of the usual office devices, preference being given to those which hold the file securely in place and do not permit the removal of individual sheets. This file, however, should be the second section in the general folder. The first section preceding it should be a classification of credit data in compact, boiled-down form by paragraphs, leaving places for the addition of facts as the file grows larger and the concern develops from year to year. The executive officer, when he sends for the folder, thus finds it easy to obtain a condensed statement of what he needs to know, while if certain data arrest his attention he refers to the second section of the file and informs himself more at length. This file will be incomplete if it is not carefully "cross-referenced." Take, for instance, the firm of Jones and Smith:—A very good file may be built up for the firm, but in another file there may be a personal record of the transactions of Jones, the senior member of the firm. Data derived from the analysis of Jones' operations should be transferred to and made a part of the Jones and Smith file, or at least a cross-reference, making access and identification easy, should lead to the file which contains a detailed account of the dealings of Jones. The same will be true of his partner, Smith; indeed, the Jones and Smith file will be incomplete unless it is brought up to date by

NAME		LINES GRANTED		ENDORSEMENTS	
		OWN NOTE	FOR. EXCH.	REC'IBLES	
ADDRESS		1914	1915	1916	1917
BUSINESS		YEARLY AVER. BAL			
ACCOUNT OPENED					
CLOSED					
INTRODUCED BY					
1918		1919		1920	
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incorporating the facts with reference to the two partners in the business.

The accompanying average balance card is used for the purpose of presenting in compact form some of the data assembled in detail in the credit file as well as in the other records of the bank.

The back of the card is left blank for miscellaneous information except at the right hand side where a column headed "Interest" and divided to show date and rate, appears.

KEEPING TRACK OF LIABILITIES

There is another function that is sometimes allotted to the credit department and sometimes carried on elsewhere—that of keeping track of the liabilities, both direct and indirect, of borrowers. The credit files should show all of the direct liabilities of the concern to which it relates, but it does not always follow that the most careful credit analysis will furnish information as to indirect liabilities. The credit department should seek to obtain all possible data showing how far the borrower has incurred indirect responsibilities, whether through agreements to take back goods, or to permit the cancellation of orders, or as an endorser of the paper of others. If the borrower has outstanding trade acceptances or other paper and at the same time is borrowing on single name paper, it is very important to show exactly what the condition would be in case of failure. Each class of outstanding liabilities might have a different status at law and the holders of one might therefore be preferred as creditors in comparison with others. A satisfactory credit file will give information upon this topic. When the bank is a large one, the file may be supplemented by a liability ledger showing the position of the borrower in greater detail.

GENERAL STUDY OF CREDIT

The credit department which relies entirely upon the data derived from the individual files of the borrowers is not in a very satisfactory position. Time and again it has been shown that the individual borrower may be solvent and sound so far as he himself is concerned, but that circumstances over which he can have no control

may wreck him irretrievably. If, for example, he is operating in a line of trade in which very great overexpansion has taken place and in which a check on demand may occur at any time, thus rendering his outstanding claims uncollectible, his own position is potentially very much weakened and the bank cannot afford to do for him nearly as much as it otherwise would. Only through obtaining regular reports of conditions in the trade in which the borrower operates, is the banker enabled to judge whether there is or is not a good field for the borrower's operations. This would seem to be the duty of the borrower himself, but the fact must be recognized that in business life men are seldom cool-headed or conservative judges of their own future. One of the most important functions of the banker is that of forming an outsider's judgment — friendly but critical, on the character of the operations which are in progress in a given trade. If the banker does not form his judgment carefully he will be in grave danger of making loans on security at constantly advancing prices until the peak of the movement is reached and when the downward trend begins he finds himself holding security of problematical worth. A well organized credit department will keep in touch with trade developments and check them up in such a way as to enjoin upon the bank's executive officers the necessity for caution in placing funds at the disposal of those who would greatly increase the scope of their business enterprises.

The modern credit department also seeks to inform itself upon the general credit situation in the country at large. In order to do so it is necessary to have recourse to many sources of information and to undertake more or less scientific analysis of business conditions as affecting credits. There are various so-called "indexes" of business conditions which may serve as a guide to the banker and from which he may draw his own conclusion as to whether the time is ripe for extension of credit or whether, even to the solvent, the amount of credit extended should be kept to a minimum. These indexes may be grouped roughly as follows :

Production
Consumption
Exchange

Under the head of production indexes are included all data relating to the supply and movement of commodities. For example, during the "crop-moving season" it is important to banks in the agricultural states and elsewhere to have some clear idea of the output of agricultural staples. This is furnished in great detail by the United States Department of Agriculture, and the reports which it supplies for states and even for counties can be supplemented by local data showing not only the production but the amounts realized in given districts for specified crops, and the movement of products. In a similar way, industrial enterprises now furnish a considerable amount of accurate information. One of the best examples of a business index of this kind is the car movement on the railways which gives a very satisfactory clue to the volume and direction of traffic. Another is found in the so-called "unfilled orders" of large concerns such as the United States Steel Corporation. These show the vigor with which production is being prosecuted and the extent of demand.

Under the head of consumption indexes may be classed all those which have to do with the rate and scope of destruction or consumption of commodities. For example, reports concerning retail trade are designed to show whether the volume of business is greater or smaller than in preceding years and what effect it has upon the reserve stock of goods on the shelves. The effort is also made to ascertain by suitable figures whether consumption is proceeding at a more rapid rate than production, and hence whether the intermediate stock or reserve of goods which is already in each trade is being diminished or not.

Exchange indexes are based on clearing house figures, the volume of transfers of deposits on the books of banks, and the like. There are many variations of such business indexes, some of them being issued by commercial concerns for their own purposes of profit-making, others being of a semi-public nature and prepared and distributed merely for the purpose of guiding the public. Not a few financial houses issue reports of business conditions and exercise considerable care in the compilation of data showing the growth of trade, its direction and the extent to which obligations are being met. From a careful study of such indexes it is possible to form an idea of the general condition of business and consequently the general

scope properly to be given to credit. The credit department will endeavor to supervise such studies much more carefully than would be done by any general investigator. Knowing the conditions in the several trades to which the bank's customers belong, it will be prepared to enforce payment or refuse renewals or curtail credit whenever such action is necessary, either in its own defense or in that of its customers.

Some special credit requirements of the Federal Reserve Board in passing upon offerings of paper deserve notice. A Federal Reserve Bank must be satisfied that the note is eligible for discount. The member bank must certify whether the note offered for discount has been discounted for a depositor other than a bank or for a non-depositor and, if discounted for a bank, whether for a member or a non-member.

A recent financial statement of the borrower must be on file with the member bank in all cases, unless the note was discounted by a member bank for a depositor (other than a bank) or for another member bank, and—

(1) It is secured by a warehouse, terminal, or other similar receipt covering goods in storage, by a valid prior lien on livestock which is being marketed or fattened for market, or by bonds or notes of the United States; or

(2) The aggregate of obligations of the borrower discounted and offered for discount at the Federal Reserve Bank by the member bank is less than a sum equal to 10 per cent. of the paid-in capital of the member bank and is less than \$5,000.

Whenever the borrower has closely affiliated or subsidiary corporations or firms, the borrower's financial statement must be accompanied by separate financial statements of such affiliated or subsidiary corporations or firms, unless the statement of the borrower clearly indicates that the note is both eligible from a legal standpoint and acceptable from a credit standpoint.

A Federal Reserve Bank shall use its discretion in taking the steps necessary to satisfy itself as to eligibility. Compliance of a note with the credit requirements may be evidenced by a statement of the borrower showing a reasonable excess of quick assets over current liabilities.

CHAPTER IX

TAX DEPARTMENT

INTRODUCTION

Not many years ago it was common in this country to class death and taxes together as eventualities which were unavoidable but for practical every-day purposes were treated as minor or even negligible factors. Direct taxes were imposed upon real estate and to some extent upon franchises, business licenses, occupations, and various other items but the sums involved were moderate, the assessment was prompt and certain in amount, and payment was final. For federal purposes indirect taxation was long the principal source of revenue and the tariff was the chief financial subject of political disputes. A deep-seated aversion persisted in the United States against direct taxes upon incomes and upon the sale of articles of necessity. For a few years during and shortly after the Civil War a moderate income tax was resorted to, but it was not a scientific piece of legislation, and at the earliest opportunity it was abolished. Some of the states endeavored at about the same time to impose an income tax, but little success attended any of these efforts. From 1872 until 1894 there was no federal income tax, and the act of the latter year was soon declared unconstitutional by the Supreme Court.

FEDERAL INCOME TAX LAWS

Increasing governmental expenditures having reached a volume which could not be met out of the customs duties and other available revenues, Congress passed in 1909 a corporation excise tax law which was in effect a tax on the income of corporations. This tax was limited to a rate of one per cent. and continued until 1913 when, after the adoption of the Sixteenth Amendment to the Constitution, the general income tax law of 1913 was enacted by Congress. This

law continued the tax of one per cent. on corporations and imposed moderate taxes upon individual incomes. It was amended in 1916, at which time the rates were slightly increased, but it was not until the Act of October 3, 1917, that this country knew the meaning of really heavy individual income taxes, and for the first time a graduated tax, called the excess profits tax, was imposed upon corporations. This law has been followed by the Revenue Act of 1918, which substantially increased the rates of tax on both individual and corporate incomes. The Act of 1917 also provided for an inheritance tax and for numerous sales and other special taxes, and these provisions of the law have been continued and extended.

Under the Revenue Acts of 1918, 1921 and 1924 the tax laws have been subject to change at the hands of almost every Congress and it is probable that alterations will continue at frequent intervals. Certainly the present law is far from perfect and in respect of both inheritance taxes and the surtax rates it is economically unsound. Every one having to do with Federal tax matters must consult the law and the latest regulations and in all important matters should act under competent advice. With the growth of income and estate taxation by the states a similar observation must be made in respect thereto. Our tax laws all suffer from the fact of being too specific. The scope allowed for administrative discretion is very limited, consequently we have a rigid framework which has been elaborated to take care of the varying conditions which must be met. The result is not at all a happy one. It is difficult to understand a tax law and the opportunities for avoidance and evasion are increased by this method of legislation. This situation is attributable in part to our written constitutions but appears to be largely based upon a fear in the minds of legislators that administrative discretion cannot be trusted. This fear is really quite unintelligent and as a matter of fact Congress and the state legislatures necessarily leave to administrative judgment all questions of valuation which form perhaps the most important factors in taxation. Other important factors are similarly left to administrative discretion and thus the legislative bodies are in a position of insisting upon strict limitation of human judgment in fields where judgment is most competent and allowing it full scope in other quarters where the results are less well assured.

THE WAR AND TAXATION

The change in the tax situation in the United States is one of the most striking phenomena connected with the war, and if it were a mere fleeting incident men might marvel and pass on. Serious students of the fiscal problems of the government are, however, agreed that direct taxation at heavy rates must last for many years and, while relief may in time be expected from the present burdens, there will not be a return to anything approaching the low level of pre-war taxes. Perhaps no other problem with which the country is now faced demands more intense and intelligent consideration. The heavy burdens imposed by the war and its resulting indebtedness can be met if tax laws are based upon scientific design and are administered with even-handed justice. Such administration must be free from narrow-minded preconceptions, able and willing to give full consideration to all the facts in each particular case and to make and apply an intelligent interpretation of the many difficult points of law. Not only have high taxes come to stay, but their application must be made more universal. At the present time, although the income tax applies to individual incomes in excess of \$1,000 in the case of persons without family obligations, and in excess of \$2,500 in the case of each individual at the head of a family, it is obvious that there is much evasion, and this evasion must be overcome by constant pressure through efficient administrative enforcement and by the education of the public conscience.

TRUST COMPANY'S INTEREST IN TAX MATTERS

A trust company is interested in taxation matters first as a taxpayer, secondly as the representative of the trust estates in its charge, and thirdly in a voluntary capacity as a tax advisor. With respect to the trust company's position as a taxpayer little needs to be said, as its problems are relatively simple compared with those in many other lines of business. Both its income and invested capital are comparatively easy of determination, and the difficult prob-

lems connected with inventories, depreciation, depletion, intangible assets, and other items common to industrial and mercantile concerns, seldom if ever arise. It is, of course, important that a trust company should be meticulously careful in respect of its own tax obligations. Acting in a trust relation for others, it may reasonably be expected to exercise a greater degree of diligence and care in making its tax return and meeting its payments than would be expected of most other business corporations. While the trust company's own return will naturally receive careful examination at the hands of the officers of the company, its preparation should, in the first instance, be lodged with the general tax department hereinafter discussed. In this way the company will secure for itself the fullest advantage of the knowledge of the law, regulations, treasury decisions, and other rulings, that it has been able to gather for the use of the estates for which it is trustee.

INCOME TAX RETURNS

Income tax returns are required from trust estates as well as from individuals, and a trust company acting in the capacity of trustee, executor, etc., must file returns for the trust accounts in its charge. Because of the complexities of the law and the frequent changes that are made in the statutes by Congress, no attempt can here be made to discuss in detail the requirements which must be met by the taxpayers. The Bureau of Internal Revenue has prepared extended regulations and these are supplemented from time to time by treasury decisions and other rulings. There are also several good text-books on the income tax law and procedure.¹ All of these, with the regulations relating to other forms of taxation which are likely to be imposed upon a trust company or any of its trust accounts, are available and copies should, of course, be found in every trust company.

To deal intelligently and efficiently with tax problems each trust company should establish a tax department, and some one officer or employee should be made directly responsible for its proper functioning. In a small trust company with few trust accounts

¹ See Bibliography, p. 519.

the work of the tax department may require during most of the year only a small amount of time and almost nothing in the way of a staff, but in a large, active trust company tax matters are of sufficient importance to warrant the selection of a thoroughly competent man to take charge of the tax department, and a staff of clerks and stenographers is indispensable. While this department should have charge of all tax matters other than local real estate taxes, which will, perhaps, be more conveniently handled in the real estate department, the taxes upon incomes and inheritances are those which will principally engage its attention. Not only are federal taxes imposed upon incomes, but several states have now imposed income taxes, and while these state laws aim in general to follow the federal law, there are necessary variations which must be observed in the preparation of the returns and in the payment of the tax. The regulations of the Bureau of Internal Revenue and of the states which have thus far adopted income tax laws require not only a return of the net taxable income, but that this return be made in considerable detail. Thus the federal law requires each taxpayer to show his total income received from each of such sources as the following:

- Income from business or professions
- Income from salaries, wages, commissions, etc.
- Income from partnerships, personal service corporations, estates, and trusts
- Profits from sale of real estate, securities and other property
- Income from rents and royalties
- Interest on corporation bonds containing a tax free covenant clause
- Interest on bonds, mortgages, etc. (other than those containing a tax free covenant clause), interest on bank deposits and dividends on stock of foreign corporations
- Dividends on stock of domestic corporations
- Taxable interest on bonds and other obligations of the United States
- Capital gains from investments held for two years or more.

From the total income certain deductions are allowed, such as interest, taxes (other than federal income taxes or estate or inheritance taxes), losses by fire, storm, etc., contributions in certain cases to an amount not in excess of 15% of the taxable net income, repairs and depreciation of property other than property devoted to personal use, etc.

The foregoing indicates in general the sort of analysis that must be made of the income of each taxpayer, and because of the extent of the classification it seems unavoidable that supplementary records be utilized. It is important that this analysis of income be made currently during the year in order, first, that an estimate may be made as to the amount of the accruing tax so that a sum sufficient to meet it may be withheld from distribution; and secondly, that a congestion of work may be avoided during the comparatively short time intervening between the close of the year and the date upon which tax returns are required. Perhaps as convenient a method as any is to use columnar sheets headed with the number and name of each trust or other taxpayer's account and, beginning at the left, showing columns for the date and total or gross amount of income, and other columns extending to the right containing headings for each classification of income, including non-taxable income, if any. These records will be auxiliary to the individual trust ledger, described on page 348, and the total of the "Gross Income" column should agree with the gross credit column in the income section of that ledger. To the right of the income columns other columns should be provided for charges against the trust or other account which constitute deductions for income purposes. This analysis should be written up monthly so that at the end of the year the figures necessary for making a tax return will be practically complete. The analysis record can preferably be written up by the individual trust ledger bookkeepers, but the analysis should be carefully examined and approved by the tax department, while the work of making up the returns should be lodged in that department rather than imposed upon the individual trust ledger bookkeeping staff.

On account of the frequent changes in the federal tax law and of the varying requirements of individual state laws, it is not deemed

practicable to present herein a copy of a form, but it is believed that the above outline will be sufficient to enable forms to be drawn to suit the needs of individual trust companies. Where a trust company has charge of a going business the accounts of such business should be kept in a manner that will clearly reflect the income and will show the true invested capital. In such case these records should be a part of the bookkeeping system of the business rather than of the trust company.

WITHHOLDING

Under the earlier income tax laws provision was made for withholding tax upon many classes of income, but under the present law withholding is limited almost entirely to income that is being paid from American sources to non-residents where, if the tax were not withheld at the source, the Government would be without effective means of collection. Where the trust company acts as trustee for non-residents it will, of course, make up the returns and pay the tax in its representative capacity, and withholding provisions are, therefore, relatively unimportant from the standpoint of the trust department. Withholding of tax at the source is required in the case of fixed or determined income payable to a non-resident alien individual or to a foreign corporation not engaged in trade or business within the United States, and in the case of interest payments on bonds containing a tax free covenant. Through the medium of ownership certificates and the general reduction in the field of tax withholding this problem has been so simplified that the banking department, in which most of the items belong, has little difficulty in meeting the requirements of the law. The subject is fully dealt with in the regulations of the Internal Revenue Bureau and reference should be made thereto for further information.

INHERITANCE TAXES

The federal and state inheritance taxes also present problems which frequently are of a perplexing nature, and these should be referred to the tax department. Fortunately in this field there is to be found a large body of adjudicated cases which go far to remove

uncertainty as to inheritance tax liability. Eventually a similar body of authority will be built up through income tax litigation, but in the meantime taxpayers and the Government are compelled to work as best they may under exceedingly difficult statutes.

WORK OF TAX DEPARTMENT

Owing to the variety and intricacy of the questions which must be solved in connection with taxation, it is not practicable to do more than indicate rather than describe the work of a tax department. The first essential is to appoint at the head of it some one who will thoroughly familiarize himself with the law and regulations of the federal government and of the individual state in which the trust company is located if an income tax law is there in force. While, as a matter of course, difficult questions of tax law should be submitted to counsel, there is in every active trust company a large mass of transactions constantly occurring which involve tax problems of complexity, arising out of exemptions, credits, and the taxability of particular items of income, so that a thorough acquaintance with the law and regulations is essential if the Government is to secure the tax to which it is entitled and taxpayers are to avoid making overpayments through mistakes or misunderstandings.

The third relation of a trust company to the tax laws is that of an advisor to depositors and clients. Since the enactment of the Revenue Act of 1917 in particular, trust companies and banks have performed a patriotic and useful service in assisting and advising taxpayers in the preparation of their returns. This work naturally falls mainly in the period between January 1 and March 15, although a smaller volume of work is required throughout the year by taxpayers having fiscal years other than the calendar year and by taxpayers who have secured extensions of time for filing returns, or upon whom the Government has levied additional assessments. The problems arising in this advisory work are likely to be more difficult than most of the problems arising in connection with the trust company's own work, because the application of a graduated income tax to corporations requires the use of a new factor, that of invested capital, and the correct computation of this factor is frequently, if

not usually, more difficult than the computation of the income itself. These questions relate in part to law, but in large part they relate to accounting, economics, and business practice. Great care, therefore, requires to be exercised in advising taxpayers on questions within this field, and where a trust company is performing a gratuitous service it should in all doubtful cases refer its client to legal or other counsel. Helpful advice is usually appreciated by one who comes to a trust company for gratuitous service, but the fact that the advice was acquired without cost is likely to intensify rather than to moderate a taxpayer's resentment towards the trust company if he later finds he has been led into a mistake resulting in an overpayment of tax, or that the advisor has omitted to point out to him a possible claim which he might make for relief. The trust company, therefore, cannot afford to incur the risk of making such mistakes, and it should be careful to confine its gratuitous advice to the more simple problems concerning which it can speak with assurance.

CHAPTER X

OPERATING COSTS

INTRODUCTION

IN commercial and manufacturing business much attention has of late years been given to what is called "Cost Accounting." This term, when correctly used, refers to a system of accounting usually parallel to the financial books, the purpose of which is to analyze or segregate the costs of various processes or of various units of work. Such a system, in order to be accurate, must be conducted upon the familiar principles of double entry and involves the maintenance of a Cost Ledger, which is kept in balance with controlling accounts in the financial books. Much, and in some cases, all, of the data required in cost accounting can be obtained from the usual financial books, and the Cost Ledger can be written up from them; but the system is at its best when organized with an entirely independent set of records which furnish the cost information.

It is a moot question how far cost accounting can advantageously be carried and where to draw the line between useful or desirable information, and red tape or detail valuable in itself but not yielding results commensurate with the expense involved. In banking, cost accounting in the proper sense of the term is but little employed; the precise scope of cost accounting in banking and the appropriate methods are indeed still to be settled. Many of the operations of banking do not lend themselves to strict cost accounting methods, and are not likely to be much helped or better understood through cost accounting save when a plan is very carefully developed to meet the special banking requirements. It is at the same time true that there are few businesses in which careful analysis and apportionment of expenses and earnings will not largely repay the labor involved and that banking is, in this regard, no exception. The largest and best managed of American banking institutions have, in

recent years, recognized this fact, and there has been an increasingly widespread effort to secure analytical data bearing upon costs.

These methods of "Costing" have tended to be primarily statistical. This means that in banking it has not been found advisable to attempt the introduction of account books which could be balanced; and that the best results are attained by cost analysis rather than by cost accounting—the records and results having no relation whatever to the financial books but consisting of statistical studies designed to show the expense and profitableness of given departments.

In applying cost analysis to banking or financial institutions the first step is, therefore, to effect a satisfactory grouping or classification of the principal divisions of the work. Such a grouping must be made in any event for the sake of administrative efficiency, but in cost analysis it is usually advisable to carry it much further for theoretical purposes than would be needful for administrative purposes only. In making cost analyses of strictly banking operations, the basic problem is that of recognizing, or discriminating from one another, the chief operations or processes. Inasmuch as most banking operations are of a standard unvarying character,—differing thus from manufacturing, where the problem is to discover the cost of a given "job" or contract and the elements of such cost—the cost analysis problem is frequently that of ascertaining an average or representative cost of performing a given kind of service or operation.

TRUST COMPANY COSTS

An institution performing a full trust company business may be divided into the following departments:

- Banking Department
- Corporate Trust Department
- Individual Trust Department
- Safe Deposit Department
- Savings Fund Department
- Insurance Department
- Controller's Department.

The fundamental problem of cost analysis in such a company is not difficult. It is easy to keep track of the salaries paid in each of these departments since their work is essentially more or less independent. The only serious problem would be the apportionment among the several departments of "overhead" expenses, i.e., rent, heat, light, and executive salaries. Theoretically, the distribution of such overhead would probably be made in accordance with the total volume of work performed or "turnover" of the several departments. This might be quite a difficult way of making the division. It would be hard to compare the turnover or volume of business of the individual trust department with that of the banking department, and the requirements of the two in the way of equipment, office space, etc., might be entirely different. For the purpose of apportioning ordinary "plant costs" such as office rent, furniture and equipment, it is usually possible to make some distribution based upon floor space occupied. The distribution of executive salaries may properly be made upon a basis corresponding to the actual salary roll of the employees directly engaged in each department. This would be upon the theory that the amount paid for services in each department corresponds roughly to the proportion of time, energy and thought required of the executive headship of the institution.

After this general subdivision of expense, the problem of cost analysis is necessarily different in each department. In the safe deposit department for example, it is comparatively easy to estimate the investment in each deposit box according to size, and apportion to each box, upon the basis of an assumed total, the proportion which it should bear of the running expense in the department.

In the individual trust department somewhat the same plan may be followed except that here the problem becomes a good deal more complex. A standard schedule of charges for trust company service has been prepared and made public by a committee of the American Bankers Association.¹ This schedule indicates approximately what the average experience of trust companies has been in regard to the cost of and the reasonable profit for each of the standard operations involved in caring for individual and other

¹ See page 355.

trusts. The distribution of expenses can be compared with the standard scale of charges thus established so as to ascertain whether the cost of performing a given service does or does not exceed a proportionate relation to other costs. While the difficulty of assigning trust department expenses is thus partly eliminated, the method is, of course, inexact. The large and well-equipped institution will necessarily maintain its own cost analysis. This will provide for a careful assignment of expenses to each operation or service with a view to finding out exactly what the expense involved may be considered to be. This kind of analysis will differ very greatly from company to company, according to the form of the investments and the amount of work that has to be done in caring for them.

For a consideration of the general principles of cost analysis, the banking department may be selected. This is of special interest because it presents a problem which is common to both the trust company and the bank. The general distribution of outlays for the bank as a whole may be studied in a compilation made by the Federal Reserve Bank of Boston and reproduced opposite this page.

BANKING COSTS

In the banking department the problem of cost analysis becomes highly technical. A line of division must obviously first be drawn between the business derived from domestic and that derived from foreign operations. Turning then to the receipts and expenses resulting from domestic operations the business may be classified somewhat as follows:

- Receiving and paying tellers' department
- Collection department
- Transit department
- Credit department
- Clearing-house department
- Bookkeeping department.

This division is more or less artificial. In some banks it may be less elaborate, while in others it may be vastly more so. The more closely the sub-division is carried out, the easier, on the

DEBITS

202

CREDITS

[illegible]

whole, will be the making of a satisfactory cost analysis, but in any case the principle will be the same.

Selecting any one of these departments for further study, the first problem in costing is to ascertain the standard items of expense customarily incurred and to keep careful account of them. This is a matter of experience simply. Such expenses may be reduced to a comparatively small number of headings. The accompanying departmental expense ledger is required monthly in a large bank from each department head.

The aggregate of report slips thus made out by the several departments should represent the entire expenses of the institution with the exception of general executive or administrative expenses, such as the salaries of the higher officers, rentals, etc. These general items may be divided upon some regular basis among the expense sheets of the several departments. Such an apportionment is frequently made on the basis of actual current expenses. If, for instance, the salary of the president is \$15,000, while the current outlays shown on the expense sheet of one department, let us say, represent 10% of the total of all, it may be fair to assign to that department 10% of \$15,000 as its share of the president's salary, or for the monthly sheet $\frac{1}{12}$ thereof, or \$125. Rentals may be apportioned in a similar way or may be assigned on the basis of space used. Taxes and like items will probably best be subdivided in proportion to other current expenses, unless they are imposed in such a way (e. g., stamp taxes) that they can be directly assigned to given operations.

When, however, the most careful analysis has been made along the lines just explained, the result will not be of great intrinsic value except for comparative purposes. If the bank has carefully preserved its records for a series of years it will be able to ascertain in which directions the cost of operation is growing most rapidly and from such information can deduce reasons for the advance. Or it may have in its possession records of other institutions and from these it may be able to draw serviceable comparisons. As most banking institutions are able to standardize salaries in accordance with the situation in the community, it should be true that the cost of conducting, for example, the bookkeeping department of a bank will

correspond in a rough general way with costs in other banks where the volume of business is about the same. This kind of information has a certain negative value, but it does not go far unless a much more thoroughgoing use is made of the data. Such further use of the data is the chief object of cost analysis in banking.

Banking, as already explained, is a continuous business which does not give opportunity for ascertaining the cost of particular pieces of work, but it is possible to find out the cost of a standard process. With such knowledge in hand, it becomes possible to analyze dealings with individual customers in order to reach conclusions as to their remunerativeness. Each customer's account may not involve the use of the entire machinery of the bank, but many will do so, while practically all will use several departments. The preliminary problem therefore is that of ascertaining the unit or standard costs of each department. This is feasible because in banking operations such unit or standard costs have little relation to the amount of the transaction as represented by the size of checks or loans but are a question of volume or number. For instance, it costs as much to receive, enter, clear and cancel a check for \$1 as a check for \$1,000, and while there are various special costs (such as collection fees, etc.) which may vary in proportion to the face of a check or the amount of an operation, they are secondary costs and must be regarded as additional to the underlying or basic costs which are incurred on all transactions in proportion to volume. Having ascertained the department expenses in the way already described, the expenses for any given department may be divided by the volume of business and a standard rate or cost obtained which is applicable to each unit. If, for instance, the gross expenses of the collection department for a month are, say, \$10,000, the number of items put through being, say, 2,000,000, the cost is evidently $\frac{1}{2}$ cent per item. In the same way, if the process of discounting has involved a cost in operating the loan and discount department of, say, \$10,000 for a given month, and if, say, 10,000 pieces of paper have been discounted, the cost per piece may be reckoned as \$1. It is practicable to subdivide much more closely the number of individual costs applying to the various banking operations and to ascertain the standard cost of certification, making credit inquiries, etc.

EARNINGS ANALYSIS SHEET

		FOREIGN TRADING					COMBINED PERCENTAGES						
MONTH	CH	1st	2nd	3rd	4th	5th	6th	7th	8th	9th	10th	11th	12th
JANUARY													
FEBRUARY													
MARCH													
APRIL													
MAY													
JUNE													
JULY													
AUGUST													
SEPTEMBER													
OCTOBER													
NOVEMBER													
DECEMBER													
QUARTERLY													
ANNUAL													

EARNINGS

207

The larger the bank, and the more complex its organization, the more minute such standard expense analysis may be made. The analysis may be extended to cover any desired number of banking processes, the method being as before simply that of apportioning to each department or sub-department the expense incurred therein with a "loading" or allowance corresponding to the overhead or administrative expense incurred.

The different standard costs having thus been ascertained, it becomes necessary to analyze earnings in a parallel way. Banking service gives rise to only a few distinct types of earning — the chief being interest or discount, exchange, and commissions. Special fees may be charged for certain kinds of service but they are always a minor factor in income. While, however, the general character of the earnings is uniform, they may be derived from many kinds or types of transaction. Most banks, for example, discriminate between direct loans to customers, paper bought in open market, loans made against warehouse receipts representing merchandise, collateral loans, income from bonds or other investments, etc. Rates vary as between the different classes of loans or paper, while they also vary with the credit standing of customers. They fluctuate also according to the condition of the money market. In testing the value of a customer's account it is essential to know not only the various kinds of expense incurred in maintaining it or carrying it on, but also the income which may be obtained from using the funds to which it gives rise. This "worth of money" or value of the balance in any given account is, as just seen, a composite matter depending upon the rates obtained from the various kinds of investment or loan which the bank makes. As in the case of expenses, the income or earning rate may be standardized by comparing gross income from a given source with volume of funds invested. Assuming that this is done for each class of investment, it then becomes possible to establish an average rate of income or worth of money. This may be computed monthly and may then be averaged to create a quarterly or other combined figure. The accompanying sheet shows the earnings analysis maintained by a large bank. From the column headed "Average rate" the bank may conclude the gross income value of a dollar deposited with it.

The sheet is used to enable the officials to ascertain, at the conclusion of each month, the relation of gross earnings to loanable funds; interest paid to loanable funds; operating expense to loanable funds; taxes, exchange and so forth, to loanable funds; losses recoverable to loanable funds; and finally net profits to loanable funds. An inscription is made, on the line parallel to the month, of the average percentage earned on the various subdivisions of loanable funds and the next line indicates the amount in dollars. The figures are compiled from day to day for the Auditing Division or the Statistical Department on accrual sheets similar to the one reproduced. On the reverse of the earning sheet provision is made for recording the earnings of the Foreign Department, also four columns covering the combined percentages. After the necessary steps are taken to insure the proper compilation of figures in the various departments affected, it takes only a little of the accountant's time each month to inscribe in the earning book data vitally required by the executive force of a large bank.

The expense and earnings elements of the bank's cost problem have now been dealt with. A third, really ranking with these two, is the ascertainment of the free or loanable balance in any given account. Such free or loanable balance represents the difference between the amount technically on deposit at any given moment and the sum really available—that is to say, not represented by checks and drafts outstanding against the account and in process of collection. The accompanying form illustrates the process of ascertaining this free or loanable balance.

With standard charges or costs in hand and with the standard or average value of money and the free or loanable balance in any account known, it is possible to proceed to the analysis of the account. When these basic figures have been compiled they provide a key to the mechanical operations required for analyzing the information growing out of daily banking operations. How such analysis is carried out may be illustrated from the following statement which can, with slight changes, be adjusted to cover the needs of any banking institution:

Monday		Tuesday		Wednesday		Thursday		Friday		Saturday		Sunday	
Lesson	Prayer	Lesson	Prayer	Lesson	Prayer	Lesson	Prayer	Lesson	Prayer	Lesson	Prayer	Lesson	Prayer
10:00-10:15		10:00-10:15		10:00-10:15		10:00-10:15		10:00-10:15		10:00-10:15		10:00-10:15	
10:15-10:30		10:15-10:30		10:15-10:30		10:15-10:30		10:15-10:30		10:15-10:30		10:15-10:30	
10:30-10:45		10:30-10:45		10:30-10:45		10:30-10:45		10:30-10:45		10:30-10:45		10:30-10:45	
10:45-11:00		10:45-11:00		10:45-11:00		10:45-11:00		10:45-11:00		10:45-11:00		10:45-11:00	
11:00-11:15		11:00-11:15		11:00-11:15		11:00-11:15		11:00-11:15		11:00-11:15		11:00-11:15	
11:15-11:30		11:15-11:30		11:15-11:30		11:15-11:30		11:15-11:30		11:15-11:30		11:15-11:30	
11:30-11:45		11:30-11:45		11:30-11:45		11:30-11:45		11:30-11:45		11:30-11:45		11:30-11:45	
11:45-12:00		11:45-12:00		11:45-12:00		11:45-12:00		11:45-12:00		11:45-12:00		11:45-12:00	
12:00-12:15		12:00-12:15		12:00-12:15		12:00-12:15		12:00-12:15		12:00-12:15		12:00-12:15	
12:15-12:30		12:15-12:30		12:15-12:30		12:15-12:30		12:15-12:30		12:15-12:30		12:15-12:30	
12:30-12:45		12:30-12:45		12:30-12:45		12:30-12:45		12:30-12:45		12:30-12:45		12:30-12:45	
12:45-1:00		12:45-1:00		12:45-1:00		12:45-1:00		12:45-1:00		12:45-1:00		12:45-1:00	
1:00-1:15		1:00-1:15		1:00-1:15		1:00-1:15		1:00-1:15		1:00-1:15		1:00-1:15	
1:15-1:30		1:15-1:30		1:15-1:30		1:15-1:30		1:15-1:30		1:15-1:30		1:15-1:30	
1:30-1:45		1:30-1:45		1:30-1:45		1:30-1:45		1:30-1:45		1:30-1:45		1:30-1:45	
1:45-2:00		1:45-2:00		1:45-2:00		1:45-2:00		1:45-2:00		1:45-2:00		1:45-2:00	
2:00-2:15		2:00-2:15		2:00-2:15		2:00-2:15		2:00-2:15		2:00-2:15		2:00-2:15	
2:15-2:30		2:15-2:30		2:15-2:30		2:15-2:30		2:15-2:30		2:15-2:30		2:15-2:30	
2:30-2:45		2:30-2:45		2:30-2:45		2:30-2:45		2:30-2:45		2:30-2:45		2:30-2:45	
2:45-3:00		2:45-3:00		2:45-3:00		2:45-3:00		2:45-3:00		2:45-3:00		2:45-3:00	
3:00-3:15		3:00-3:15		3:00-3:15		3:00-3:15		3:00-3:15		3:00-3:15		3:00-3:15	
3:15-3:30		3:15-3:30		3:15-3:30		3:15-3:30		3:15-3:30		3:15-3:30		3:15-3:30	
3:30-3:45		3:30-3:45		3:30-3:45		3:30-3:45		3:30-3:45		3:30-3:45		3:30-3:45	
3:45-4:00		3:45-4:00		3:45-4:00		3:45-4:00		3:45-4:00		3:45-4:00		3:45-4:00	
4:00-4:15		4:00-4:15		4:00-4:15		4:00-4:15		4:00-4:15		4:00-4:15		4:00-4:15	
4:15-4:30		4:15-4:30		4:15-4:30</									

DEPOSIT ANALYSIS SHEET 1

THE MODERN TRUST COMPANY

Analysis Department

Account of First Excelsior National Bank

From the 26th of January 1919 Somewhere, Ohio

DATE	ITEMS NOT AVAILABLE				LEDGER BALANCE				NET CASH BALANCE				
	DETAIL				TOTAL	DR		CR		DR		CR	
						Thousands	Hrs	Thousands	Hrs	Thousands	Hrs	Thousands	Hrs
26 Sunday	1 50	176	153		488				366		120		
27	2 57	175	153		595				9 75			3 80	
28	2 57	5 00			7 57				9 60			2 08	
29		5 00	147		6 47				13 66			7 39	
30	1 25		147		2 75				35 15			32 43	
31	1 25	3 35			5 15				397		1 16		
1	1 25	3 35			5 15				3 37		1 16		
SUN. 2	1 25	3 35			5 15				3 37		1 16		
3		3 35	2 15		6 05				1275			6 72	
4		1 74	2 15		3 39				1275			8 36	
5	1 46	2 15	1 74	75	6 38				2150			15 17	
6	1 05	2 15	1 70	75	6 25				1288			6 58	
7		1 15	1 70	1 67	4 52				1735			12 53	
8		1 15	1 70	1 67	4 52				1974			15 22	
SUN. 9		1 15	1 70	1 67	4 52				1974			15 22	
10		1 15	2 95	86	4 36				2225			17 28	
11	8 17	1 27	2 95	86	9 15				2378			18 55	
Legal 12	8 17	1 27	2 95	86	9 15				2378			18 55	
13		1 27	90	86	2 97				6015			57 45	
14		1 27	90		2 17		10 80				12 91		
15			90	273	3 83		10 80				14 53		
Sun. 16			90	273	3 82				4927			43 64	
17				273	2 73				8455			91 92	
18		1 46		273	4 18				3634			32 46	
19	80	1 45	1 00		8 25				1732			14 67	
20	80		1 00		1 80		13 37				15 17		
21			276		2 76		8 00				10 76		
Legal 22			276		2 76		8 00				10 76		
Sun. 23			276		2 76		8 00				10 76		
24	8 50		155		4 05				3059			28 54	
25	2 50		155		4 05				4000			35 53	
TOTALS					141 10		589 1		589 9	5	79 41	18	469 89
DAILY AVERAGE and INTEREST					4 55		1 90		1 90		12 24		28 24

Note: By accident the figures in the Ledger Balance column for 14th and 16th became interchanged. This changes the Net Cash Balance column for 14th to Cr 47.16 and for 16th to Dr. 14.43

1 See Bankers' Magazine, 1919, p. 428.

Account	Cost	Profit
Country checks	" Days Ending	"
Paid collections	" Loanable balance 5%	"
Handling	" Exchange received country	"
Interest on their credit balance	" checks	"
Exchange paid	" Exchange received par collec-	"
Interest loss volume sent	" tions	"
If check book free compute	Exchange received or volume	"
checks paid at cost	sent	"
Administrative tax	" Foreign exchange	"
Miscellaneous debits	" Discount received	"
	Miscellaneous credit	"
	Account shows profit	"
	Loss	"
	% Balance for interest and ex-	"
	change	"
	Total	Total

The important part of the analysis is the compiling of proper cost figures. Before beginning the analysis of an account maintained with a banking institution and in order properly to compute the expense of handling it, it is necessary to take into consideration every possible expense which each department in the bank is subject to, including the cost of clerical help, light, heat, rent, depreciation on furniture and banking fixtures, loss, if any, proportion of administrative salaries and expenses, advertising, etc. There must also be a careful and painstaking tabulation of the number of items handled by the different departments, cognizance being taken of the number of times an item is rehandled by one or more departments.

If a remittance received for credit being analyzed includes, say, 200 checks, 50% of them payable in other cities, causing rehandling five or six times before the checks are deposited in the post office en route to the collecting bank; or if the operations entail five different handlings in any one department, then each check is treated and charged as five separate items. Different methods may, however, be used when compiling the basic figures. If the cost per item in a department is figured on the average number of items handled, including all rehandling necessary, then, of course, it can be treated as one item in any department, an additional charge being made upon the item each time it passes through the hands of the various departments until finally disposed of.

After these figures are compiled the total average, over a number of months, can be narrowed down to the approximate cost or fraction of a cent per item which the bank expends.

With the above form as a basis for analyzing the account it is necessary to ascertain the cost involved in each of the heads which have been specified above, as well as the income to be derived under each of the heads of the right-hand side of the analysis. For the purpose of analyzing the figures in this way a sub-analysis of expenses under each item is called for. It is well to start with the first item on the left-hand or cost side, namely, "Country Checks." Costs entering into the collection of such checks may be analyzed as follows:

COUNTRY CHECKS		
Total par items	Volume	Cost
Cost		
Department cost per item		
Cost		
Clearing house department cost per item		
Cost		
Currency department cost bills rolls specie		
Cost		
Coupon department cost envelopes ..		
Cost		
Department cost envelopes and cou- pons		
Cost		
Loss 2 days on volume		
Cost		
Remittances received		
Cost		
Route department cost		
Cost		
Loss 1 day 10½ cents per M.	Total	

In the same way the principal costs involved in the management of the affairs of the several departments of the bank are analyzed as follows:

COLLECTION DEPARTMENT

Number drafts received	Number city notes
Number tracers sent	Number country notes
Number unpaid collections	Volume par collections paid
Number paid collections	

LOAN-DISCOUNT

Number city notes discounted	Charge made for service
Number country notes discounted	Number substitutions made
Number Wall St. loans	Number inquiries made for credit in-
Number bonds, stocks, handled for	formation and approximate cost
loans	labor and agency expense

FOREIGN EXCHANGE

Profit in transactions

BANK BOOKKEEPING

Number checks paid
 Number checks returned
 Number B/L credits
 Number third teller credits
 Number carbons from check teller
 Number transfers
 If cancelled vouchers returned mail
 charge 6 cents
 Number times overdrawn
 Are morning credits added

PAYING TELLER

Items certified	Average amount
Express packages forwarded	Is new money requested
Number bills required	

RECEIVING TELLER

Number express packages received	Average amount condition bills mutil-
Number bills contained	ated

NOTE TELLER

Number black-book	Number items redeemed
Number letters advice	

FILING

Number pieces filed

When the cost analysis has been made it is comparatively easy to fill in the items on the profit side, inasmuch as they are the result of more or less standard charges. The loanable balance may be figured as returning to the bank a standard income, which may be

based upon the actual earnings of the bank upon its loanable funds during either the preceding six months, or any other period that may be chosen. It should be borne in mind that the entire loanable balance carried in an account cannot, as a matter of fact, be loaned; indeed it would not be fair to figure interest on a larger percentage of it than the entire loans of the bank bear to its total loanable capacity. The items of exchange received, both domestic and foreign, and discount received are of course readily drawn from the ledger accounts corresponding to the name of the particular individual whose dealings are under scrutiny.

When such an analysis as is indicated above has been made the data are at hand for figuring the cost of the account as well as its profit. A standard cost of performing each operation having been determined in advance, the number of operations necessitated, say, in the course of a month by a given account can be multiplied by the standard cost of each such operation, with the result that eventually a complete cost analysis of the account is secured. Needless to say, it is seldom worth while to apply any such analysis to all of the accounts of the banking department. There will usually be some large or complex accounts which deserve it, but many others will present no such complex problems. It will be necessary only to ascertain the facts relating to a few of the principal phases of such account. Knowing, for example, what is the average balance carried in the account and what is the total number of checks paid during the month it is comparatively easy to form a general idea of the profitableness of the account. Few banks have carried cost analysis to any advanced point and they are in many instances disinclined to resort to the elaborate and painstaking work necessary to ascertain the exact profitableness of each transaction or class of transactions.

Such analysis, carried to a logical conclusion, will result in eliminating from banks many undesirable accounts, or will show what steps should be taken to render accounts profitable and warrant retaining them.

Following is a summarized statement of the analysis of an individual account prepared in form for review by the officer whose duty it is to consider the relative value of different phases of the business and indicates the use that may be made of cost analysis.

ACCOUNT ANALYSIS SHEET 1

THE MODERN TRUST COMPANY

ANALYSIS of ACCOUNT of _____

DATE _____
Federal Res. Dist. # _____

PERIOD of ANALYSIS from _____, 19__ to _____, 19__ DAYS.

AVERAGE DAILY LEDGER BALANCE \$ _____
Less AVERAGE DAILY DELAYED ITEMS \$ _____
Less RESERVE and UNEMPLOYED FUNDS, _____% \$ _____
AVERAGE LOANABLE FUNDS \$ _____

INTEREST TERMS :- _____
NUMBER of DAYS in PERIOD showing NET DEBIT BALANCE, DAYS.
TOTAL NET CASH BALANCE - DEBIT (Overdraft or Involuntary Loan) * \$ _____
CREDIT . . . \$ _____
Less _____% RESERVE & UNEMPLOYED FUNDS * \$ _____
TOTAL LOANABLE FUNDS for one day \$ _____

TO US the ACCOUNT'S	COST	INCOME
LOANABLE FUNDS for one day, @ _____% per ANNUM		
INTEREST PAID on CREDIT BALANCES at _____%		
INTEREST DUE on OVERDRAFTS at _____%		
DIRECT EXPENSES:-		
ACTIVITY NUMBER, _____ UNITS @ _____		
CASH DEPOSITED, \$ _____ @ _____ per \$1000		
CURRENT, " " \$ _____ @ _____ per \$1000		
SPECIAL DIRECT COSTS: _____		
Services: COUPON COLLECTION, _____ Ex. @ _____		
CREDIT INVESTIGATION _____		
PAY ROLL _____		
OVERHEAD due to -		
ACTIVITY, _____ UNITS @ _____		
AVERAGE LOANABLE FUNDS, \$ _____ @ _____		
FLAT CHARGE per ACCOUNT per MONTH		
EXCHANGE :- PAID and RECEIVED		
TOTALS		
NET COST or INCOME OF THIS ACCOUNT THIS MONTH		
REMARKS :- _____		

1 See Bankers' Magazine, 1919, p. 698.

CHAPTER XI

STATISTICAL DEPARTMENT

INTRODUCTION

To compile facts in readily available form as the basis for intelligent action; to reduce impressions to mathematical certainties; to make it possible to judge future results by past performances; to eliminate from constant scrutiny the large mass of information which, once digested, needs no further thought; to deliver the overburdened officer from as much of the weight of responsibility as accurate and up-to-the-minute records can take from him; to enable him to concentrate on those problems which require his best judgment, his constant and intelligent attention:—such is the province of this department.

With the enormous growth of the trust company in recent years, it has become impossible for any man or group of men, however able, to rely on memory and personal knowledge for information in regard to the investments for which they are responsible.

It was enough in days gone by to read a few financial papers, to gossip with friends at the club, to depend on directors and on the information which drifted into the office, for the facts which kept trust company officers abreast of the times. Investments once made were likely to be forgotten—until the day of distribution or delivery, the expostulations of an irate beneficiary, or the news of a sudden decline in value centered attention on losses which might have been avoided.

A western bank president says that he has been told for forty years of “systems that would beat the bank, beat the bookies, and beat hell generally,” but he never saw one that “worked regularly.” Perhaps, but trust company officers everywhere will welcome any system which increases their efficiency, and automatically and simply gives the information they need as a sound basis for action.

The Statistical Department has hardly begun its evolution, yet it has come to stay, and money wisely spent in its development and in training skilled men and women to compile facts and to present them in readily available form, will prove a most profitable investment. Equally important is the discovery and training of an expert to interpret the facts so presented and to aid the busy executive in carrying out policies based on proven fundamental laws.

How many officers of trust companies to-day actually know what part of the business they do is profitable or the reverse, how many know anything about the management, earnings and affairs of the properties in which other people's money, for which they are responsible, is invested?

National and state laws have made it unnecessary for the individual client to ask trust company officers whether periodical audits are made, whether officers and clerks are bonded, whether adequate reserves are kept and a score of other essential questions. But the client, if he is a merchant or manufacturer, still may well ask whether the trust company keeps statistical records without which he could not conduct his own business successfully. On this the future value of the trust company shares which he owns and the intelligent handling of his own estate may some day depend.

FUNCTIONS

The Statistical Department should be at the service of every other department of the trust company. Its more important functions and particularly those which should be developed at the start are the following:

The keeping of records which will enable the department to make analyses of securities owned and of investment possibilities; the analyzing of trust accounts as a whole and of individual items; the compilation of information to guide in the purchase and sale of securities and in keeping track of collateral; special investigations and research; and, apart from the sphere of investments, information in regard to the business of competitors, in order to compare rate of progress, earnings and efficiency of service.

As time goes on and the size of the department increases it can

undertake a wide variety of functions, all developing from those already indicated.

ORGANIZATION

In a small trust company the statistical and bookkeeping work can be combined. With growth of business and the creation of a Controller's office, the bookkeeping and statistical work can be separated under the general direction of this officer.

An independent statistical department, entirely apart from the routine bookkeeping and auditing, as the laboratory or engineering department of a commercial business is separate from the production department, is the objective to be aimed at.

The advantages of such an independent department are so many that its nucleus should be formed, even though it start with a single individual.

An officer of a large trust company recently stated that if he could persuade a certain investor of ample means and with a remarkable insight into security values and investment tendencies to advise in regard to the company's security list, including its own investments and those of its trust accounts, he would gladly pay him an annual fee of \$30,000. While the ideal head of a Statistical Department is not readily to be found, the investment brokers, bond houses and securities departments of the larger trust companies and banks are developing a class of experts fitted by knowledge and training to render valuable service. There is, of course, no substitute for the keen and well trained banker, alert to changing conditions, with sound judgment, wide knowledge and practical experience. The chief statistician becomes his right hand man in all investment problems, relieves him of a mass of routine detail, satisfies him that automatic procedure will bring to his attention a wide range of facts that he cannot afford to miss, and so not only enhances the efficiency of an already overburdened executive, but makes it possible to increase earnings, avoid losses and effect a valuable check on the regular organization which carries on the current routine operations of the company.

The chief statistician should be responsible for the statistical

records and reference library. Keeping in touch with market quotations and current literature, he should take charge of the making of investigations, the appraisal of security values and the preparation of such periodical and special reports as may be called for by the officers and directors, or as may in his own judgment be deemed necessary.

The chief statistician should have an ample force of clerks and trained experts so that he may be free to supervise the current work of his department, to confer with the officers of the company, and to prepare reports and make recommendations based on the facts which have been assembled by his subordinates.

Statistics, unused, are a waste of space and money. They can be made, by intelligent use, the basis of steadily increasing efficiency and profit.

QUOTATION INDEX

Simplicity of records and ease of reference to essential facts are the keynotes of efficient statistical service. The tendency is to overdevelop, to duplicate existing records and to lose track of the big issues in a mass of interesting but often irrelevant or unused detail.

The quotation index is the most important record of the department—one which no trust company or bank can afford to be without. It covers all securities held by the company for its own account, for individual and corporate trusts and as collateral for loans. The securities received and delivered books are the sources of information covering accessions and deliveries¹ of trust securities. The index can be kept on cards or in a loose-leaf book. As cards are better adapted to growth and easier to manipulate, the following plan is recommended.

Cards 5"×8" are ruled like a physician's temperature chart, in two forms and colors; one for recording monthly, weekly or daily price fluctuations, the other for annual price movements. At the top of each card is a space for the description of the security and just below are spaces for "years" on the annual cards and "months" on the cards for the shorter periods. While in most cases a monthly record will suffice and the cards can thus be made to last for

¹ See page 338.

QUOTATION INDEX. MONTHLY CARD

UNITED STATES STEEL CORPORATION COMMON

1919

J.

F.

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J.

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1

115

110

105

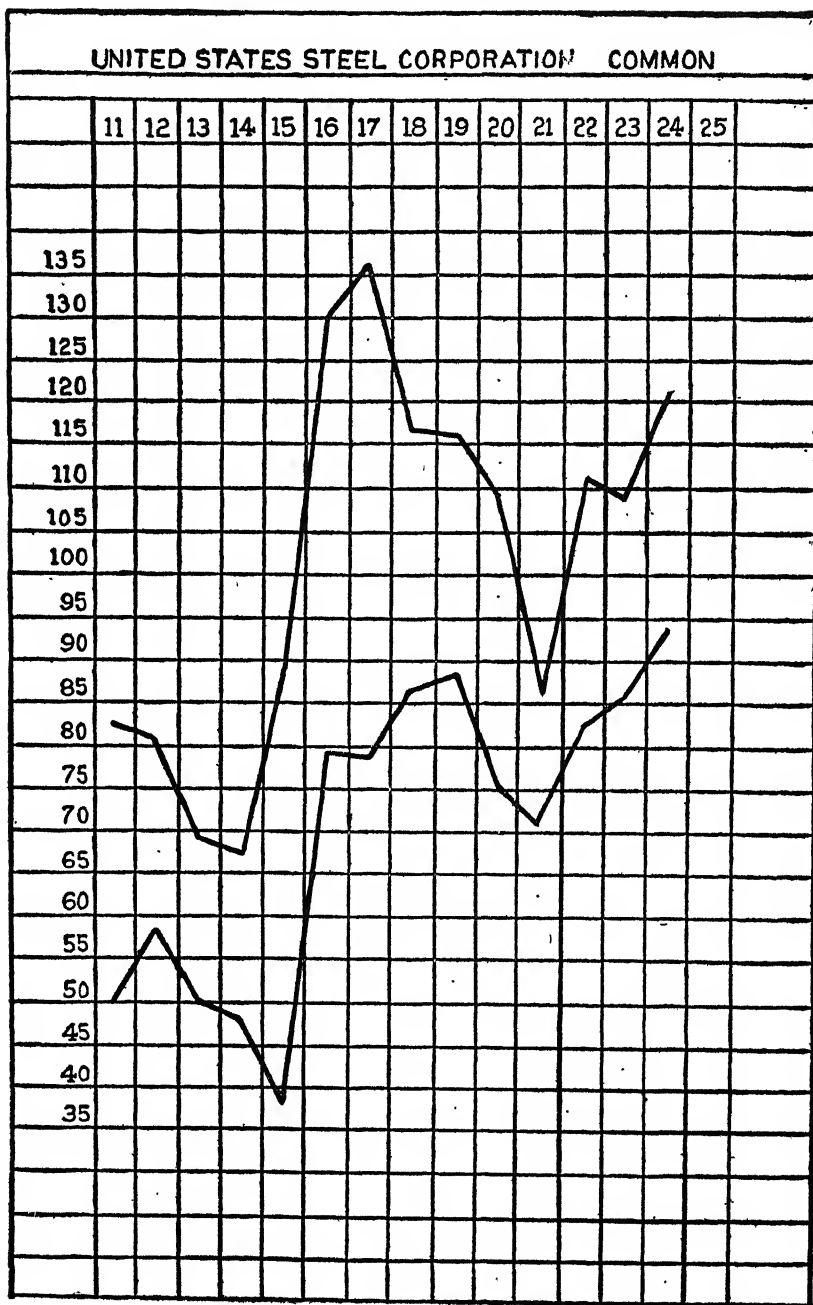
100

95

90

85

QUOTATION INDEX. ANNUAL CARD



twelve months and fifteen years respectively, in the case of an excited market, additional cards for weekly or even daily records may be necessary. At the left hand are spaces in which to insert the scale of prices. Each tiny space in each block can represent one point or more depending on the extent of the price fluctuations of the particular security.

At the right of the card is a space where lines are drawn in red pencil to show the cost of the investment held, with a brief reference to the amount and owner. "40 #385" and a red mark on the line representing a price of 85 would indicate that trust account number 385 owns \$40,000. par value at that book or cost value. When several accounts hold the same security, the individual holdings are recorded at the proper price levels. When the number of accounts is too great to record them clearly on the face of the card, they are recorded in pencil on the back in spaces ruled to make it possible to group the accounts holding the security in question, by dividing them according to price levels — for instance 1-80, 81-90, 91-100, 101-110 and so on.

A clip keeps together the cards representing each security: in front the current monthly quotation card, behind it the monthly cards for previous years, and at the back those recording the price movements by years.

Guide cards divide the index into the following divisions:

- Stocks
- Railroad bonds
- Industrial bonds
- Public Utility bonds
- Government bonds
- Municipal bonds
- Miscellaneous bonds.

Metal tabs of different colors are used to indicate:

- Maturities within twelve months
- Convertibles
- Sinking Fund
- Investment possibilities
- Questionable value
- In default.

The quotations of active securities are inserted after the end of each month and after the end of each year from the Quotation Supplement of the Commercial and Financial Chronicle. As the quotations usually appear each month on the same page of the Quotation Supplement, it is an easy matter, after recording the number of the proper page at the top of the card, to find the quotation as often as it is needed. Quotations for inactive and local securities are obtained from a variety of sources, some of which tax the ingenuity and perseverance of the clerk responsible for keeping up the index. The source of the information should invariably be noted on each card.

A pencil dot midway between the heavier up and down lines and at the proper price level is connected with the last quotation by a straight pencil line, or a dotted line where there has been no sale. In such a case symbols should be used to indicate "bid" or "asked" prices.

Both high and low figures at which sales and bid or asked prices are reported should be recorded. The space between the two lines thus records the price movements of the security.

Cards covering securities which have been sold or parted with should not be destroyed, but be kept apart for future reference. It often happens that securities come back in new accounts or are repurchased.

Compiling the original information is a considerable piece of work. Once done, the current recording of price fluctuations requires surprisingly little time. Absolute accuracy and always up-to-date quotations are prime requisites.

Ratings should appear on all cards and those of the highest grades need seldom be examined. The clerk making the postings should be instructed to call attention periodically to all wide price changes and to put before the responsible officer lists of securities which by reason of questionable value, near maturity or any other cause need careful watching.

Experience has demonstrated that the quotation index soon becomes one of the most used of all the records of the trust department. It is not only a valuable aid in connection with investment problems, but gives in condensed and readily available form the key

data which are constantly sought in order to settle innumerable other problems affecting trust accounts and investments. No other data should be added to the index except after the most careful consideration, for one of its chief values is its simplicity. A mass of detail on a key index tends to confuse, and delay action. Data not on these cards are usually found in the standard manuals where they can be quickly located as needed.

ANALYSIS OF SECURITIES

The Statistical Department cannot afford to be without the standard manuals and investment services. In addition, where the size of the business will permit, the daily, weekly and monthly financial papers should be supplemented by the ticker and the best credit rating books and service.

Government reports are becoming increasingly important and, with the development of export business and the growth of foreign investments, a wider range of data and information is constantly being needed. A reference library, carefully indexed and in charge of a well trained and alert librarian, is of very great value.

Files should be kept including a folder for each security on which data have been secured. Annual, or if possible, monthly reports of operations of companies whose securities are owned should be secured, recorded and studied. Clippings and frequent correspondence should keep the investment files up to date. Prospectuses often form the basis for later comparisons — sometimes none too happy. Graphic charts are a great help and should be used freely both as regular features and in the preparation of special reports and statistics. Comparisons should be shown in percentages as well as figures.

Detailed statistical information should, wherever possible, be obtained from original sources and standard manuals to save expense, duplication and chance of error. There are, however, many investments about which such information is not available, while others require special analysis, close contact with current operations and rearrangement of the figures given in published reports to show essential facts.

The mere assembling of such figures in uniform and readily avail-

able order will automatically show striking differences between the operations of succeeding periods and of competing companies and will force a regular scrutiny of the facts by the clerk who makes the compilation.

Investigations should whenever necessary include inspection and appraisal of properties. "Low visibility" in the figures may be intentional. A trip over a railroad system may reveal tendencies which are not reflected in either balance sheet or profit and loss account.

It is unnecessary to describe here all the ramifications of statistical work. The basic information which should be obtained in regard to each security may be shown in the following general outline,¹ to which all subsidiary records can be related:

Government Bonds:

Relation to indebtedness of
 Natural resources
 Trade
 Population — per capita
 Income or revenue
 Expenditures
 Wealth
 Taxes
 Character

State Bonds:

(See Government Bonds)

Municipal bonds and those of other political divisions of the State:

Relation to indebtedness of
 Taxable value or assessed valuation
 Revenue and expenditure
 Total net debt
 Productive assets
 Provisions for extinguishment of debt
 Population — per capita

Railroad Bonds:

Control
 Ownership
 Management

¹ See "Stocks and Shares," by Hartley Withers; "American and Foreign Investment Bonds," by William L. Raymond; "The Principles of Bond Investment," by Lawrence Chamberlain; "How to Analyze Railroad Reports," by John Moody.

Physical characteristics

- Location of road
- Its size or mileage
- Character of traffic
- Products of agriculture
- Products of animals
- Products of mines
- Products of forests
- Manufactures
- Merchandise and miscellaneous
- Character and condition of equipment
- Operating efficiency
 - Traffic density
 - Passenger
 - Freight
 - Train-load

Income factors

- Earnings and their distribution
- Fixed charges — margin of safety
- Disposal of surplus

Capitalization factors

- Assets and liabilities
- Stocks and bonds outstanding per mile
- Net capitalization
- Net income on net capital

Public Utilities:

- Transportation
- Light, heat, power, water etc.
 - Franchise:
 - Perpetual
 - Limited
 - Source of power
 - Natural
 - Artificial
 - Territory served
 - Growing (developing)
 - Stationary
 - Competition
 - Management
 - Attitude of population served

Industrial Bonds:

- Products of
 - Agriculture
 - Animals
 - Mine
 - Forest

- Manufacture
 - Essentials
 - Non-essentials
 - Quickly consumed
 - Long lived
- Proportion of
 - Labor
 - Material
 - Distribution cost
 { entering into
retail cost of
product
- Protected by
 - Patents
 - Trade marks
 - Natural monopoly (sole source
of supply)
 - Secret processes
- Market for product
 - Domestic
 - Foreign
- Open competition
 - Service
 - Quality
 - Efficient production
- Balance sheet
 - Assets and liabilities
(Tangible and intangible assets,
fixed and current liabilities)
 - Income Account
 - Earnings
 - Fixed charges
 - Net surplus
- Product
 - Sales
 - Manufacturing cost
 - Cost of selling
 - Operating profit
- Credit position
 - Turnover
 - Good-will
- Financial position
 - Quick assets
 - Quick liabilities
 - Bank loans
 - Cash
 - Inventory

Stocks:

(See Bonds)

In order to indicate how some of the data referred to above can be assembled and put into shape for ready reference, the following forms are described. They are designed for the securities of industrial concerns and may be modified for other securities.

As the fluctuations in quick assets and liabilities and in earnings of industrial investments are likely to be more rapid than of those based on taxing power or transportation, they must be followed more closely. Changes in assets and liabilities often indicate in advance the trend of security price movements.

An essential record is a loose-leaf book in which at least five pages are devoted to each security. Each sheet lasts a year or more and, by watching the figures, changes in condition and earnings can readily be ascertained. Each page contains 14 parallel columns, in which the following data are recorded periodically:

By months and for year — by items in dollars

Page 1 Balance Sheet (Show sub-totals for quick assets and quick liabilities)

Page 2 Profit and loss account

By months and for year — by years in dollars

Page 3 Sales

Page 4 Net profit or loss

By months and for year — by items in %

Page 5 Capital Stock = 100%

Book value

Quick assets

Cash

Receivables

Merchandise

Quick liabilities

Accounts payable

Notes payable

Excess quick assets

Ratio

Net worth

Comparative statistics, by industries, are also valuable. They indicate the extent to which fixed and quick assets, material, labor, selling cost and other factors affect each class of investments.

Comparative Charts by Industries by years

1. Relation of

Cost of product	}	items in dollars and % sales = 100%
Cost of selling		
Cost of administration and gen- eral expense		

2. Relation of

Material	}	entering into product items in dollars and % cost of product = 100%
Labor		
Direct		
Indirect		
Miscellaneous overhead		

3. Relation of

Invested capital	}	items in dollars and % invested capital = 100%
Sales		
Turnover		

4. (a) Ratio, fixed assets to fixed liabilities

(b) Ratio, current assets to current liabilities

(c) Ratio, current liabilities to cash on hand

(d) Ratio, total assets to total liabilities

(e) % of net earnings, after all charges, to gross business

(f) Stock, preferred
amount
price; high and low
dividend rate(g) Stock, common
amount
price; high and low
dividend rate

For each individual industry the following charts view the situation from enough angles to show where more detailed scrutiny is advisable.

*Individual Industry.**Chart cumulative by months and for year—by items in dollars*

5. Net sales

Cost of product
Selling expenses
Administration and general ex-
penses

Charts by months—by items in dollars

6. Production
 - Labor
 - Direct
 - Indirect
 - Material
 - Overhead (other than indirect labor)
7. Manufacturing
 - Cost of production
 - Cost of idle expense
8. Inventory
 - Total
 - Raw
 - Semi-finished (in process)
 - Finished
9. Sales
 - Net sales
 - Inventory (total)
 - Unfilled orders
10. Sales
 - Gross sales
 - Returns
 - Net sales
11. Sales
 - Net sales
 - Manufacturing cost
 - Selling expense
 - Administration and general expense
 - Net trading profit
12. Sales
 - Net sales
 - Collections
 - Ratio in %
13. Financial
 - Total payroll
 - Manufacturing
 - Selling
 - Administration and general expense
14. Financial
 - Cash
 - Receivables
 - Loans
 - Accounts payable

S K F PARTICIPANTS AND INDUSTRIES

CONSOLIDATED INCOME ACCOUNT FOR MONTH AND PERIOD ENDING.....19.....

PARTICULARS	MONTH		PERIOD		INCREASES AND DECREASES †	
	AMOUNT	%	AMOUNT	%	MONTH ‡	PERIOD ‡
NET SALES	\$	100	\$	100	\$	\$
COST						
GROSS TRADING PROFIT:						
Selling Expense						
Administrative and General Expense						
NET TRADING PROFIT						
Add. Royalties						
* Misc. Income						
GROSS OPERATING PROFIT:						
Deduct: Royalties						
Interest						
Amortization of Patents						
Reserve for Depreciation						
Reserve for Inter-Company Profits						
* Miscellaneous Losses						
OPERATING PROFIT (Before taxes)						
Reserve for Taxes						
NET OPERATING PROFIT						
Add. Surplus at						
TOGETHER						
Deduct: Income Distribution						
SURPLUS—Per Balance Sheet						
* Details	† Increases in black, decreases in red		‡ Last year			
	AT DATE		AT SAME DATE PREVIOUS YEAR			
QUICK ASSETS	\$		\$		\$	\$
QUICK LIABILITIES						
UNFILLED ORDERS at Date						
% of Net Operating Profit to Capital Stock						

15. Financial

Quick assets	}	To determine relation and seasonal high and low points
Quick liabilities		

16. Financial

Disposition of earnings
Reserves
Taxes
Dividends
Surplus

For the directors of an industrial company these facts should be supplemented by a monthly consolidated income account, in which both figures and percentages are shown with comparisons for the same month and period of the previous year. The form reproduced is that used by a large manufacturing company.

ANALYSIS OF TRUST ACCOUNTS

The analysis of each new trust account and periodical appraisals of old accounts are of the greatest importance. The analysis should be made with the following factors in view :

Types of investments
Security of principal
Marketability
Income yield
Term { short
long
Taxation

A ruled analysis sheet headed with the name of the account shows in parallel columns the following details :

Rating
Par value
Description of security
Interest or dividend rate
Convertible
Due
Cumulative

Cost
Price
Amount
Market value
Price
Amount
Percentage yield
Present market
Taxable in state
Tax (%) paid by company
Gross annual income
Net annual income
Yield (%) to maturity
Present market

Each item is listed alphabetically under the appropriate security classification and a recapitulation sheet contains the totals and averages of each class.

FUTURE DEVELOPMENT

The management of the statistical department affords a field for ingenuity and resource which is not afforded by the other and more stereotyped divisions of the trust company. This means that no standard type of statistical organization can be recommended. In fact, the needs of different enterprises vary considerably and the statistician should be always on the alert to get new ideas and to accumulate data which may be of service. In some trust companies the statistical department works in close conjunction with the credit department. In others it may be closely allied or even subordinate to either the banking department or the individual trust department. These differences depend upon the purpose in mind in organizing the statistical section. If it is to be merely a more or less routine department of analysis it becomes an adjunct to the investment side of the trust company's activities. If, on the other hand, it is to have the function of leadership and guidance in connection with the company's business, independence for the statistician is both desirable and remunerative. When this work is regarded as that of

essential business analysis and forecast, he assumes a conspicuous position as scientific adviser and in that capacity his duties take on an importance which they would otherwise lack. It is this aspect of statistical service which is being developed in the modern trust company. The necessity of maintaining historical records is obvious, but from the broader standpoint, the proper field of the statistician is that of business investigation, just as the function of the credit department is that of credit inquiry. The two fields are closely allied but are far from identical. Just as the credit department is concerned with the actual problems of lending and credit apportionment, so the statistical department is concerned with the problems of business future and with ascertaining the trend of business conditions. Long before changing business conditions, alterations of earning, and the like, have recorded themselves in altered quotations of investment securities, the statistician should have been able to point out important tendencies or movements and to analyze their bearing upon the business of his company. In so doing his reports will have served to prevent unwise investment policies or to protect and safeguard the institution against dangers which might beset it as the result of general conditions over which it had no control.

It may be said that studies of this kind are carried on by public authorities, at least to some extent, and that the technical and financial press of the country finds this one of its important fields. These publications do not, however, meet the need for immediate and accurate information of a statistical nature which is felt by every large investment enterprise. Not only are the current reports, both of the Government and of even the most reliable journals, controlled by conditions of expediency, but they are necessarily general in their character and do not relate to the particular work of any given institution. Moreover, the essential value of statistical data depends upon their being in hand early, so that the teaching derived from them may be available without delay for the business guidance of the trust company concerned.

The practical work of the statistician in this broader aspect of his functions is twofold — that which is of interest to the public clientèle of the company and that which is significant for the management only. From the standpoint of the management the statistician's

function becomes primarily that of studying those business tendencies which directly affect the company. Thus, for example, a trust company with a large commercial banking department is immediately concerned in all those matters which affect banking solvency, reserve conditions, discount rates and the like. Records in the statistician's office should accordingly show all those classes of facts which are fundamentally important in judging of general banking conditions. He should be in close touch with the government offices which have important relations to his company and should arrange to be steadily and fully informed of their actions. For this purpose not a few companies maintain special representatives in Washington as well as at the capital of the state in which they are located. They expect to be provided without delay with all reports and statements affecting the condition of banks, with orders, rulings and the like, made by banking authorities, and with data of every kind, that may be made available to governmental agencies, bearing upon general business conditions. A large trust company should know immediately what dates have been set for reports to be furnished by members of the system to which it belongs; changes, if any, that are made from time to time in the conditions of examination, and variations that may take place in the general position of the banking world. It should be the function of the statistician to study current banking reports as made public and to show by suitable tabular comparisons any important tendencies which may be revealed there. His files should contain a complete list of important public statements such as those issued by the Secretary of the Treasury, the Comptroller of the Currency, and the banking authorities of the state in which his company is incorporated. During the recent war many of the most important banking influences originated with the Government, and Government orders and rulings had an immediately significant effect upon bank operations. The various "black lists" issued by the governments which were at war indicated the limitations that had been imposed upon business, and necessitated prompt and accurate work on the part of the scientific student in every bank and trust company affected by them, in order to show clearly what the result of their enforcement would be. It is not, however, exclusively with

such matters of direct interest that the statistical department is concerned. Movements of prices, large purchases or sales by the Government affecting prices in the several branches of trade, and a great variety of other business data, should be compiled, analyzed, and their net results put before the officers of the company. The statistician should from time to time make reports showing the change in business conditions as affecting borrowers in a trade in which the company has largely invested its funds. Thus, for example, in the cotton states it is at all times true that very large loans are being carried by trust companies on cotton in its various forms. These loans are necessarily based upon an estimate of the probable price to be received for the staple during the near future. The Statistical Department in such a trust company should make it a point to collect all possible data regarding cotton, the situation of the crop as revealed by estimates, changes in acreage, reports of deterioration in condition, variations in warehouse stocks, exports, prices on the exchanges, and the like. For the purpose of obtaining such data it may be found desirable to organize a corps of correspondents who report as a matter of business courtesy at frequent intervals regarding conditions in their sections, or who stand ready to answer circular letters of inquiry that may be sent periodically. At times it may be worth while for the statistical department to send special investigators or to pay fees to well qualified men in different localities in order to secure information. Such data, when put into proper shape, enable the officers of the company to frame their policy with respect to loans upon cotton some time in advance and to avoid hazardous commitments which they must otherwise make. The case of cotton is only an illustration. Very much the same situation exists at every headquarters of an industry. Thus the banks of New England which are interested in the cotton milling industry and those in the middle west which are largely concerned in the development, say, of the automobile business, must occupy themselves with acquiring as accurate and complete information as they can regarding the position of the trades which they are most directly serving. It is not possible to indicate any standard set of data which should be accumulated by the statistical department of a trust company with

reference to a given line of business. The statistics may be more or less elaborate and their form must depend upon the special conditions of the industry.

A trust company which is largely interested in exporting and importing and which has close connections with foreign countries or which is engaged in placing the obligations of foreign countries necessarily calls upon its statistician for continuous and accurate information concerning developments affecting foreign trade. Thus the statistician may to good advantage compile elaborate export and import figures and may with benefit to his institution subdivide and classify such figures much more fully than can be expected of any Government office. He should be able at all times to furnish complete information concerning the fiscal, economic, industrial and banking situation in the countries in which his company is directly interested. This department becomes one of exceptional importance when the enterprise has foreign branches, as is true at the present time of a number of American banks and trust companies. Such branches are themselves suitable agencies through which to collect the data that are desired from the foreign country, but the facts must be properly sifted and presented in order that their meaning may be made clear to the officers of the company. It is the duty of the statistician to trace business tendencies in such foreign fields and to have at his hand well digested collections of facts so that when called upon he can report promptly on outstanding conditions. As already indicated, he should also, as he notes important tendencies, call them to the attention of the officers through the medium of a condensed report or memorandum.

CHAPTER XII

FOREIGN BANKING

INTRODUCTION

PARTICIPATION in foreign banking enterprise is comparatively new in the United States, but the expansion of our trade with other countries has within the past few years materially altered the position of this branch of banking and its significance as an element in the operation of American banking institutions. At the opening of the European war there were not more than seventy-five American banks that possessed direct correspondent relations in foreign countries while practically none of them, except one or two institutions organized expressly for the foreign trade, had established regularly organized branches abroad. It is now certain that, owing to the changed conditions growing out of the war, a large part of our trade will in future have to be financed by our own institutions and that much closer financial relations with other countries will have to be kept up. Direct remittances and payments will be much more in demand and for a long time to come the money market of the United States will be steadily called upon to furnish funds for foreign enterprises. The foreign department thus becomes an important and integral part of every considerable American bank, or trust company engaged in the banking business, while even the smaller institutions will find it more necessary than heretofore to arrange good foreign connections either directly or through others. Foreign banking will therefore be included in the regular business of many trust companies.

NATURE OF FOREIGN BANKING

There is nothing in the nature of foreign banking that differentiates it in principle from domestic banking. Its ideas and

methods are essentially the same and the principles upon which it is based are identical with those that control in the domestic field. Nevertheless the practice of foreign banking differs widely from that of domestic banking, and involves the use of connections and expedients which are not necessary in local transactions. The characteristic of foreign banking is that it converts claims valid abroad in foreign money into claims valid here in our own money. This may be contrasted with a typical domestic transaction somewhat as follows:

Domestic Banking.—A sells 50 bushels of wheat to B who agrees to pay A \$100 at the end of 30 days with interest at 6%. A takes B's note to a bank which credits him with \$100 taking the note of B with A's endorsement. A checks out the \$100 paying it to X.Y.Z. whom he owes for goods or services. During the month X.Y.Z. pay B by check for goods bought from him so that at the end of the month B has in bank \$100 plus. B then pays the bank by check \$100.50, the face of the note with interest, receives back the note and destroys it.

Foreign Banking.—A in Winnipeg sells 50 bushels of wheat to B in New York who agrees to pay A \$100 upon delivery to him of a bill of lading showing shipment of the grain. A draws a draft on B for \$100, takes it to his bank and receives credit for \$100. The bank forwards it to a New York bank which presents it to B who pays the bank (N. Y.) \$100. This sum the bank credits on its books to the bank in Winnipeg. A pays out (by check) his \$100 to X.Y.Z. in Winnipeg. These individuals have bought goods in New York and they go to the bank, which takes their checks and issues in exchange its own checks on the New York bank in which it has the \$100 to its credit. X.Y.Z. transmit these checks to New York where they are presented and paid (exchange and interest omitted).

While both transactions are the same in nature the foreign operation described includes the following elements not present in the domestic transaction:

Employment of the banking and currency systems of two countries rather than one, in order to complete the operation.

Equalization of credits between places instead of making such equalization between different times in the same place.

The basic service of banking is the same in both classes of operation, but foreign banking involves a more complex application of fundamental principles.

Foreign exchange is a system by which debts contracted in one country are paid in another. The rate of exchange is the value or price of the currency of one nation calculated in that of another. The trade balance between two countries is the difference between exports and imports, but their actual balance may be very different, owing to other factors such as the expenditures of travellers, purchase of foreign securities, and foreign loans.

Foreign exchange is used in the settlement of international trade balances, and serves, by the use of credits, to obviate the transportation of currency in payment of each separate transaction. By means of foreign exchange, balances are settled between different countries, just as a bank account enables an individual by drawing and receiving checks to effect the necessary transfer of balances without resorting to the use of currency. When gold, which is the standard of value for international transactions, is shipped, this is because such demand for exchange has arisen that the premium or price asked is in excess of the cost of actually transferring the metal. The moment that the price falls below this cost, shipments of the metal cease.

A foreign exchange business necessitates the opening of credits with banking houses in the principal financial centres of the world, or at least in London or New York with banks already having such connections.

Buying and selling drafts is the simplest form of foreign exchange transaction; in this business any financial institution may engage by simply opening accounts abroad, selling drafts to its customers, and, in order to maintain the foreign balances, buying drafts payable abroad which it forwards for collection and deposit to its credit.

ORGANIZATION FOR FOREIGN BANKING

In studying the organization required for the conduct of foreign banking two distinct phases of the problem may be recognized: internal organization of the bank or trust company itself for the transaction of the business; external organization or mode of making

connections for the purpose of transacting the foreign side of the business and of getting more. These are two entirely separate problems and they may be considered independently of one another. Before discussing the internal organization it will be best to explain the special functions or duties which fall to the foreign department of any banking institution. In the typical example of foreign banking already given the following distinct services or duties were performed:

Lending or discounting.

Collecting (abroad).

Remitting.

Converting foreign into domestic currency and vice versa.

Offsetting or "clearing" obligations.

Of these five distinct operations only the first and last are necessarily present in the local banking operation used for purposes of comparison.

FOREIGN DISCOUNTING

The fundamental principles of lending are the same whether in foreign or domestic business. The bank receives paper based on commercial operations, analyzes the credit behind it, discounts it, and passes the proceeds to the credit of the customer. No theoretical analysis of bank lending or discounting in foreign trade is, therefore, necessary. The technique of the process is, however, different in the two cases. Because of the obstacles to a proper appraisal of foreign credits, the bulk of foreign transactions are either based directly upon a specified movement of goods which gives rise to paper relating to a particular transaction, or else they are undertaken and carried on for a foreign banking institution whose standing and credit are themselves a guaranty of the liability incurred or credit extended. Foreign banking operations are, therefore, more generally based on transfers of individual lots of goods than are domestic operations, and in consequence there is distinctly less necessity for pure credit analysis and extension. Because of these facts the greater part of the foreign department's business is founded upon foreign bills of exchange which represent the drawings of local ex-

porters on foreign customers or of foreign shippers upon domestic importers. These foreign bills may be stated in foreign or domestic currency, as will later be explained. In any case, they are accompanied and secured by documents evidencing the ownership and shipment of the goods themselves.

The more intricate foreign exchange transactions are largely in the hands of international banking houses, yet many trust companies which do a commercial banking business are establishing foreign departments both for the convenience of their customers and for the more profitable use of their own funds. Their principal foreign business is in the buying and selling of exchange against merchandise and in connection with trade operations, in the purchase and sale of drafts, and the issuing of both travelers' and commercial letters of credit.

The successful conduct of a foreign exchange business requires a knowledge not only of monetary but of trade conditions abroad.

COLLECTING

In exchange against merchandise, the process is as follows: the exporter, immediately on shipment of his wares, in order to reimburse himself, sells his draft drawn on the purchaser of the goods, with the bills of lading attached, and at once renounces title to the goods. The purchaser of the draft becomes the owner, not only of the draft for which the drawer is liable but of the merchandise as collateral security. The draft may be forwarded directly to its destination for collection in accordance with its terms, or it may be sold and a profit at once secured.

Drafts are usually drawn payable at sight or at three, ten, thirty, sixty, or ninety days after acceptance. The term "thirty days after sight" signifies that the draft is payable thirty days after its presentation to the drawee for his acceptance, or engagement that the obligation will be honored by him at maturity. Such presentation should be made promptly.

In the purchase of a draft with a bill of lading attached, the amount of the draft has to be calculated in its equivalent in the foreign currency, and additional charges such as insurance, postage, interest,

stamp tax, and commissions may have to be computed, and great care must be taken to be certain that all the papers are in proper form. These documents include as a rule the following:

Bill of lading

Insurance policies

Consular certificate or invoice

Such special certificates, export licenses, etc., as may be necessitated by law or custom at any given time to ensure free movement of the goods.

It is clear that a "foreign bill" of the kind described may be presented to the bank for discount either by a customer who has drawn it upon a foreigner or by one who has received it from a foreigner. In the former case the customer will bring the bill and documents directly to the bank with a request for a discount or loan, while in the latter they will probably have been presented by the foreign creditor or a local bank acting for him to the importer's bank as a result of pre-arranged agreement. If the draft and document are offered by the local customer or exporter as a basis for credit, the problem of the banker is the same as that involved in any ordinary loan — the judging of the credit of the individual and the determining of his proper claim to accommodation. There is a special security in the shipment of goods to which the documents give title, but the draft has not been accepted by the foreigner on whom it is drawn so that the loan is really a straight single name advance designed to liquidate a bona fide sale of goods. Assuming that the bank has determined to make the advance, it now has the problem of fixing the charge to be imposed therefor. If the draft or bill is drawn at sight and the terms upon which the foreigner has bought are cash when documents are handed him, the bank has only to compute the time required to present the bill and get returns. This may be taken for purposes of illustration at 30 days. The bank's basic charge is, therefore, discount at the current rate for 30 days plus transit time.

Additional service is performed in converting foreign money into domestic. How this is done will be presently explained. It is necessary first, however, to consider the management of the lending operation from the reverse standpoint. The bill may have been

drawn abroad and may represent payment for goods shipped to a buyer in the place where the bank itself is located. Suppose that this draft, being payable at sight, reaches the buyer at a time when he is unprepared to pay. He may in that case ask the bank to pay the draft, and the bank, if satisfied of his credit, may do so, turning over to him the documents representing the goods, but retaining his obligation to pay at the expiration of the period for which the loan was granted. The bank in this case has credited the foreigner who drew the draft, or may have remitted to him a payment draft upon some bank in his own country. Both in this instance and in the previous example the bank has been called upon to advance funds and has made a loan protected by the general credit of the customer and by a claim on the goods represented in the specific transaction under consideration. The character of the lending process and the service performed is really the same in the two cases and is not different in either from that involved in an ordinary loan.

FOREIGN REMITTANCE AND EXCHANGE

It was noted above that the charge for discounting the draft was only the basic or first charge to be exacted by the bank for discounting the draft drawn on the foreign buyer. This is because the payment of the draft (on which the bank has made its advance) is to be made at a foreign point. For instance,—suppose that the draft is drawn on a London house and is stated in sterling. What the bank will get when the draft falls due and is collected is a given number of pounds sterling in London—not in New York. Even if the foreigner upon whom the draft is drawn has agreed that it may be drawn in dollars so that when collected the debtor has to liquidate the obligation in dollars, it remains true that the debtor is to make the payment in London and that what he will do in practice is to offer the number of pounds sterling which at the price then prevailing will suffice to acquire the number of dollars equal to the face of the draft. The bank in discounting the draft, therefore, has practically agreed to take payment at time of collection in one of two forms:

Pounds sterling in London, or
Dollars in London.

In either case an element of risk of loss is incurred. Suppose that at the time the draft is discounted one pound sterling is currently worth five dollars. There is no certainty that 30 days hence this equivalence will hold good. At that time changes may have occurred which render £1 currently worth \$4.90. If the draft was for £1,000 the bank may have advanced \$5,000, less discount, but when collected the face (converted into dollars) will be worth only \$4,900. A charge must, therefore, be made by the bank to cover this element of risk. Such a charge is currently called foreign exchange. It represents the cost of converting units of foreign currency or credit into corresponding units of domestic currency or credit. This charge is seen in its pure form when a customer who has (it may be supposed) just arrived from England brings to a New York bank notes of the Bank of England asking to be given their value in American money. These notes represent a claim to money *in London* and the bank in purchasing them must consider and allow for the fact that its funds will not be available until collected in England and that they may then be worth more or less than at present as stated in America, while even if fully worth their original value they will still be in England, and not in New York. True, the bank may sell such currency to another, e.g., an American who is planning a trip to London, but this merely transfers the problem of equivalence of value to some one else.

The transfer of credits from one country to another through a third having a different monetary standard, is called the arbitration of exchange. Thus in remitting funds from this country to Paris, it may be cheaper to remit by the way of London, rather than to purchase exchange on Paris direct, owing to the lower cost of exchange on Paris in London. The chief difficulty often lies in the intricate calculations by which the small profit on each transaction must be determined. Cambists, persons skilled in the exchange of money, have prepared tables which are generally used in computing transactions in exchange and greatly facilitate the handling of business which would require an enormous expenditure of time and labor were each calculation to be made separately.

ACQUIRING FOREIGN CREDIT

The bank which discounts or buys the draft stated in foreign currency does not, however, usually count upon immediately collecting or converting the foreign credits to which it has become entitled through discounting the draft. It knows that just as exporters desire to discount drafts entitling them to receive payments abroad there will be importers who will appeal to it to provide foreign funds for the purpose of enabling them to make payments abroad. It will, therefore, wish to "carry" the proceeds of the draft, or in other words to keep them on deposit in the country in which they are payable. In order to do so it needs either a branch or agency of its own at the foreign point, or else a correspondent relationship with a foreign bank. Since even a very large institution cannot have branches at all points with which it will do business, it will necessarily have many correspondents. The relation between a bank and such correspondents is thus important and is likely to be a mutual relationship, each of the two institutions performing certain services for the other upon request. These services may be merely the same that would be performed by the bank for any depositor. It may carry an account with its correspondent sending it items for collection which are credited by the correspondent and drawing upon the balance thus developed. But the correspondent may be called upon to furnish accommodation or advance funds in order to enable the bank itself to draw at times when its collected balance is insufficient to meet its needs. Provision may be made for such "overdraft" accommodation by placing with the correspondent some sound securities or other collateral against which overdrafts are granted at a specified rate of interest. The foreign correspondent may, however, feel such confidence in the bank and its solvency as to be willing to grant the overdraft credit without collateral and in that case there is merely a "straight" unsecured loan made by a bank in one country to a bank in another. Eventually the settlement of such an advance can be brought about only by the shipment of goods which create offsetting bank credits or through the transfer of investment securities issued by citizens or enterprises in one country to those in the other.

SOME SPECIAL SERVICES

It has now been shown that the bank performs in its ordinary discount operations the various functions into which the foreign banking operation has been analyzed — including lending, collecting, remitting, etc. If all foreign transactions were carried out by a bank in one country operating in relation with a bank in another, every complete transaction would embody all of these elements in some form. Every country, however, has various institutions which are doing business in competition with one another and every foreign transaction is likely to be split up into various sub-transactions. Thus for instance, in a typical case, lending or discounting may be undertaken on behalf of an individual who has imported goods for which he must pay. The payment may be made to another bank which is acting for the foreign creditor and in this case such bank will be warranted in making a suitable charge for collecting the proceeds of the draft. It may be assumed that the creditor in the foreign country has asked that these proceeds shall be paid to him by cable transfer as soon as realized and in this case the collecting bank will send a cable message ordering payment made to the creditor by its correspondent in the latter's country. Here is a fair example of the process of remitting, for which a banking charge is customarily and properly made. If a bank carries the credits it acquires abroad until it can offset them by debits due to the shipment of goods in the opposite direction, the service it renders is that of cancelling or clearing obligations and to carry this out it is obliged to make advances out of its current local funds from time to time to the persons for whom drafts are discounted or to whom they are furnished. In charging for its services in this connection it must make allowance for possible losses in value due to the changes occurring while the bank is waiting for the account to clear itself.

FOREIGN EXCHANGE POLICY AND MARKET

The question must occur to every thoughtful manager of a foreign exchange department how he can liquidate his obligations should he

finance an excess movement of goods and so become "long" on foreign currency or credit, or vice versa be unable to obtain enough of it to meet his commitments. It is evident that if there were but one bank engaged in the business, so that it handled all outgoing as well as all incoming financing the problem would be comparatively easy. Since all balances due to inequality of imports and exports may be settled in money, the foreign exchange banker would recognize that his problem was ordinarily that of keeping sales and purchases of bills and remittances about even. Minor seasonal fluctuations would be carried by the overdraft credit plan already outlined, while occasionally a heavy movement of "capital goods" intended for investment purposes would be offset by shipments of securities representing such goods and permitting foreigners to take the goods and keep them for industrial use on a semi-permanent basis. Movements of gold would occasionally occur, though not often, owing to the expense and credit disturbance growing out of such movements. It is, however, seldom or never true, that all incoming or outgoing business — still less both — can be handled by a single bank. The bank or trust company in the foreign exchange business is therefore obliged to be a close student of the foreign exchange market and of the quotations therein, not only in order to keep informed as to the prevailing level of charges but also to draw from changes in quotations suggestions regarding the probable direction of trade and the preponderance of the balance on one side or the other. The foreign exchange market is very unstable, being based chiefly on informal interchange of information and quotations among the larger dealers and institutions, but it affords a regular basis of valuation and permits an institution to "hedge" or insure itself by selling or buying bills in a given foreign currency whenever it finds itself carrying too much or too little of that particular kind of exchange.

INTERNAL ORGANIZATION

The internal organization of the Foreign Department of a bank or trust company depends in its extent and complexity upon the size and scope of the business of the department. It may consist simply of a "Foreign Exchange Manager," who is given such minor cleri-

GR.

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REMITTANCE ADVICE AND RECORD

It is also desirable to maintain in the Foreign Department a record of remittances and a record of drafts drawn and presented. The remittance record and advice is made out in triplicate. The original

Paralleling the remittance advice is the record advice of drafts drawn. The original is forwarded with the drawings, the duplicate is sent by a subsequent mail, while the triplicate copy is retained.

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The record of letters of credit issued or guaranteed furnishes detailed information covering the whole series of transactions growing out of the issue of each letter of credit. The form which is reproduced is for a commercial credit. For travelers' letters of credit the same form is used, or one in which all reference to commodities, and the transactions arising out of their purchase and shipment, is omitted.

MODERN TRUST COMPANY

NEW YORK, N.Y.

THIRD CLASS REGISTERED MAIL

Gentlemen,

This letter will be presented to you by

in whose favor we have this day opened a credit for
to be credited to your demand draft for

MODERN TRUST COMPANY NEW YORK, N.Y.

which we request that you will keep under strict control
if your usual check is not duly paid at maturity as required.

The draft should bear the following stamp:
"BANK OF NEW YORK & CO. NEW YORK, N.Y." and we engage that
such draft will be duly honored, provided the same is drawn
within the time limit to be set and the date and
amount of each draft cashed duly entered in the back of this letter.

Respectfully,
who holds our letter of Indication and whom
may be found, your attention we have the honor to render.

Very Truly Yours

Modern Trust Company

Travellers' checks are also issued. They are for fixed sums, usually \$10, \$20, \$50 and \$100, and are negotiable at the current rate of exchange for checks on New York on the day they are cashed, the holder receiving value in the money of the country where they are cashed. Travellers' checks are also issued in pounds and francs so that the holder can tell the exact amount he is entitled

LETTER OF CREDIT AGREEMENT

IN CONSIDERATION of the issuance by *The Modern Trust Company New York N.Y.* of its Letter of Credit, as per copy annexed, receipt of which is acknowledged, the undersigned jointly and severally agree with said *Modern Trust Company*, its successors and assigns, to pay it or them on demand in United States gold or equivalent, any and all amounts drawn in virtue of said Credit, plus one-half per cent. commission, interest and charges.

The undersigned hereby authorize said *Modern Trust Company*, its successors or assigns, to sell at any time, at public or private sale, with or without notice, any securities of any kind whatever, that it or they may hold against such Credit, and to become the purchasers thereof

The undersigned further agree that the payee shall affix sample signature to the Letter of Indication in respect of said Credit before such Credit is in any way made use of

The undersigned further agree that if said Credit be either lost or stolen, on discovery thereof, immediately to notify the said *The Modern Trust Company, New York N.Y.* by telegraph, and the undersigned jointly and severally authorize *The Modern Trust Company*, upon receipt of such notification (1) to notify by post their correspondents of such loss or theft, and (2) to take such other precautions as they in their discretion may deem proper or advisable in the premises, and the undersigned jointly and severally agree to reimburse said *Modern Trust Company*, for any and all expenses thereby incurred, and further, if any payments are made against such Credit, so lost or stolen, by any Bank or Bankers observing the precautions usual at the place of payment and before the receipt of any such notice, the undersigned jointly and severally agree to indemnify and save harmless *The Modern Trust Company* or their correspondents from any loss sustained or liability incurred thereby.

The time limit originally specified in said Credit may, upon the application of the holder thereof, be extended by said *Modern Trust Company*, or any of its correspondents, without notice to any other party hereto, and thereupon all the terms hereof shall remain in full force and effect for the term of such extension, without releasing any party hereto

The Modern Trust Company may assign or transfer this instrument and may deliver any security or any part thereof to the transferee or transferees who shall thereupon become vested with all the powers and rights herein above given to said *Modern Trust Company*, its successors, assigns and correspondents, and said *Modern Trust Company* shall forever be relieved and fully discharged from any liability or responsibility in the matter

New York, N.Y.

.....
.....

to receive, without any question being raised as to the rate of exchange. Identification is provided for by a specimen signature, as in the case of letters of credit. These checks are sold for cash at their face value and the usual commission.

Domestic letters of credit and travellers' checks are also issued for use in this country. They are similar to the foreign letters and checks except that they are always issued in dollars.

A useful record is one in which all exchange bought and sold is listed, the purpose being to show all liabilities and assets in connec-

[illegible]

¹ For further forms and subsidiary records see the standard works on Foreign Exchange, listed in the Bibliography.

[illegible]

EXCHANGE BOUGHT

[illegible]

	EXCHANGE	SOLD
1000	1000	1000
2000	2000	2000
3000	3000	3000
4000	4000	4000
5000	5000	5000
6000	6000	6000
7000	7000	7000
8000	8000	8000
9000	9000	9000
10000	10000	10000
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12000	12000	12000
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99000	99000	99000
100000	100000	100000

[illegible]

CONTROLLING FOREIGN BUSINESS

What has been said thus far has been based primarily on the assumption that the bank or trust company engaging in foreign business carries on its operations through a correspondent bank. A sketch has been given of the relations existing between such a bank or trust company and its correspondents abroad and of the privileges and duties mutually assumed. In some circumstances, however, the relation of a correspondent such as has been described is inadequate to the development of the business. It then becomes a question whether to establish abroad an agency or branch bank or adopt some other type of organization. Many trust companies are permitted under the laws of the states that have chartered them to establish branches or agencies either at home or abroad or both. When such an offshoot is practically vested with full-fledged banking functions it is usually described as a branch; when its functions are more limited, being confined to the collecting and paying of bills and the transaction of routine functions, it is termed an agency. Deposits are seldom received or local loans made by agencies. Agencies really do nothing more than take over the routine banking services and functions formerly appertaining to a correspondent. There is reason for transferring this class of work when the volume of foreign business in a given place has become large enough to warrant a separate organization — or sufficiently expensive to warrant the belief that the fees and commissions paid to the correspondent can be in a measure saved by establishing an agency. With almost every banking organization that does a considerable foreign business, the time will probably come when one or more agencies will really reduce expenses.

A much broader question is presented when it is proposed to organize a branch. As business with foreign countries grows it frequently appears that no very strong foothold can be obtained unless the bank is ready to play a part in the development of the industries of the country or countries with which it is trading. If this is to be done successfully the organization of a branch is the logical step.

CHAPTER XIII

CORPORATE TRUST DEPARTMENT

THE same charters under which trust companies have become trustees and agents for individuals have made it possible for them to act in like capacities for corporate clients. As the corporate business has grown, they have increasingly found the necessity of organizing it in a separate department. The distinction is based more on practical convenience than on any real difference of function. In a small company both kinds of trusts may perfectly well be grouped together, provided separate records are kept. In a company doing a large corporate business, the corporate trust department may itself have to be subdivided according to the various duties which the company assumes.

TRUSTEE

A generation ago it was customary for a railroad to name one or more individuals as trustees of the mortgages executed to secure bond issues. The development of trust companies and their manifest advantages over individuals in such capacity have resulted in their absorbing almost all this business. Trust companies are now generally appointed as trustees in corporation mortgages, and are also often named to succeed individuals who have died or resigned. The appointment is one of the most important and far reaching which the trust company can accept. Its name and reputation serve as an assurance that the transaction is a regular one, entered into in good faith, and that the necessary legal and other formalities have been complied with. Although the modern corporation mortgage is usually explicit in its terms to the effect that the trustee in no way guarantees the value of the security and assumes no liability except for its own negligence, yet the intimate connection between the trustee and the borrowing corporation in the minds of investors

makes it necessary that care be taken not to assume trusteeships which may lead to a wrong use of the name and credit of the trust company.

As trustee under mortgages securing bond issues, the title to the mortgaged property is vested in the trust company for the benefit of the security holders. The corporation owning the mortgaged property retains physical possession of it so long as the terms of the obligation are complied with, except in the case of securities pledged, which are usually lodged with the trustee. In case of default, however, it devolves upon the trustee to protect the interests of the bondholders, and this may necessitate the foreclosure of the mortgage and sale of the property.¹

Before accepting a corporation mortgage trust, all reasonable care should be taken to ascertain the correctness of the statements made and the legality of the mortgage, even though the liability of the trustee is expressly restricted to gross negligence or wilful default. An opinion should be required from the counsel of the corporation making the mortgage that the document is in proper form, and that its purpose is lawful and in accordance with the statutes of the state in which the premises to be mortgaged are situated. A draft of the proposed mortgage and bonds should be submitted to the trust company for inspection and be passed on by its own counsel. As the exact provisions of each mortgage differ, it is a safe rule never to accept a trusteeship until the papers have been approved by counsel.

The mortgage should contain clauses clearly defining the rights and duties of the trustee and limiting its liability. Provision should also be required for indemnification against expense in taking action to enforce the rights of the bondholders, and limiting the right of such action to the trustee except in case of the trustee's refusal to act.²

The mortgage should contain a clear and concise description of the mortgaged property, and if it is stated that it is a first lien against the property, the fact should be verified. After the prelimi-

¹ For a full and interesting description of railway bonds, see "Corporation Finance," by Thomas L. Greene, p. 33 *et seq.*

² See "Essentials required by Trust Companies to be put in Mortgages and Other Papers," Andrew Squires. Proceedings Trust Company Section, American Bankers' Association, 1900.

nary arrangements have been completed, including an agreement as to compensation, the mortgage is executed and acknowledgment of the acceptance of the trust is made by the trustee. The mortgage is executed in duplicate, and when it is necessary to record the document in several states more executed copies may be required. A final opinion of counsel may be obtained, after the mortgage is recorded.

It is usual to have bonds engraved by responsible companies, from specially prepared plates. Precautions are taken to prevent any impressions being lost or stolen, and the engravers may even be required to give security against loss resulting from negligence on their part. The bonds are sealed with the corporate seal, attested by the officers of the issuing company, and are then sent to the trustee who certifies and delivers them as provided in the mortgage. Before being certified, each bond should be examined to see whether it is in proper form. The exact phraseology used in certifying bonds varies, the intent being simply to identify the security. The following is a form approved by the listing committee of the New York Stock Exchange:

"This bond is one of the bonds described in the within mentioned indenture."

To this is added the name of the trust company, trustee, and the signature of the officer who certifies the bond.

Now that mechanical means make it possible to sign twenty bonds simultaneously, the labor of certification is greatly reduced. Chittenden, while Register of the Treasury during the Civil War, was kept alive by stimulants in order to save the credit of the Federal Government at a time when he alone had the legal power to sign obligations of the United States. The enactment of the XVIII Amendment and the invention of the "signograph" render a repetition of the incident unnecessary if not impossible.

The mortgage provisions for delivery of the bonds by the trustee vary widely. It may be stipulated that the entire issue is to be certified and delivered as soon as the mortgage is recorded; or that a fixed amount be issued, depending on the completion of work on the mortgaged property, as for instance, when a railroad mortgage speci-

fies that a definite number of bonds may be issued for each mile of roadbed constructed. Part of an issue may be reserved to retire underlying bonds as they mature, and provision may be made to issue a fixed amount each year. When a loan is made to provide funds for the construction of a railroad or other enterprise, the trustee is sometimes required by the terms of the mortgage immediately to certify and deliver all the bonds, even though the work has not begun. Such a course may open the way to gross irregularities and misappropriation of funds. It is far safer to require that bonds shall be delivered only as the work progresses. A mortgage may provide that all subsequently acquired property shall be subject to its lien, that properties may be sold and released, and that other properties may be substituted in their place. When properties are released, the trustee must execute an appropriate instrument. Many mortgages provide that the issue may be redeemed at a premium after a fixed date, either at the option of the company issuing the bonds, or by the operation of a sinking fund.

If the mortgage provides for a sinking fund which will secure the gradual retirement of the bonds or their payment at maturity, it is incumbent on the trustee to see that such sinking fund provisions are complied with. A frequent provision is that a certain number of bonds may or must annually be retired, either at par or at a premium. In accordance with the terms of the mortgage, the numbers of the bonds to be called for payment are drawn by lot, and public notice of their redemption is given. When the issue cannot be redeemed before maturity, the sinking fund may be used in buying bonds of the issue or may be invested in other securities.

In the case of "collateral trusts," the security consists of the stock and bonds of subsidiary companies, or of other securities owned. The trust may also include a general lien, subject to all prior obligations, on the real estate and other property of the borrowing company, in which event it becomes a combined trust mortgage and collateral trust agreement. The securities are deposited with the trustee. They are held either with powers of attorney attached so that they can be transferred if necessary, or they are registered in the name of the trustee. If substitution of collaterals is permitted by the terms of the trust agreement, the trustee should

be satisfied that the new securities are fully equal in value to those withdrawn or otherwise comply with the terms of the agreement, and in cases of doubt the trustee may require not only the opinion of counsel, but an order of court.

"Car trust" and "coal trust" agreements are other forms of collateral trust. Under the so-called "Philadelphia plan," the title to the cars vests in the trustee, from whom they are leased by the railroad company. The trustee issues the bonds or certificates as the cars are delivered and paid for. The rental received by the trustee is sufficient for interest charges and the retirement of a certain number of the bonds each year. In this way depreciation of the value of the collateral is provided for, and the issue is entirely paid off during the life of the cars.¹ Car trusts may also take the form of conditional sales, the title to the cars being reserved in a trustee until the trust notes are paid in full. Coal trust agreements are designed to enable the owners of the coal to obtain advances by issuing bonds or certificates before sales have been effected. In such cases the coal accounts are kept by the trustee as selling agent.

Collateral trust obligations may be issued by the borrowing company and certified by the trustee, or they may be issued by the trustee itself in accordance with the provisions of the trust agreement.

If the borrowing corporation complies with the terms of the mortgage or deed of trust, the duties of the trustee may be almost nominal. At maturity, on the payment of principal and interest, the mortgage is satisfied of record by the trustee and the bonds are cancelled. After payment and cancellation the bonds may be burned in the presence of the trustee, and a cremation certificate executed and acknowledged.

A clause is sometimes inserted in corporation mortgages providing for their satisfaction by the trustee and the release of the mortgaged property before all the bonds have been presented for payment. In such cases, funds sufficient to meet the outstanding bonds are deposited with the trustee.

For the general record of corporate trusts, a loose-leaf book can be used to advantage. The special records of corporation mortgages

¹ See "Trust Company Law," by John H. Sears, *Car or Equipment Trusts*, Chap. XI. p. 120.

or trust deeds, to be inserted in this, comprise three sets of sheets: an abstract of the document; a record of bonds received, certified, and delivered; a record of bonds paid, cancelled, and cremated or returned.

Sheet A.—Abstract. At the top of the page appear the title of the account and trust number. As an aid in preparing the abstract, it is well to print the principal subjects usually appearing in corporation mortgages. The following list may be extended or altered to meet varying requirements, enough space being left to note briefly each item:—

Mortgage or deed of trust dated	Recorded
Lien,	
Amount,	
Interest rate,	
Interest due,	
Interest payable at,	
Bonds due,	
Bonds payable in gold or coin,	
Bonds, coupon or registered,	
Bonds, provision for exchange from one class into the other,	
Bonds, denominations and numbers of,	
Bonds to be issued, how, when,	
Bonds issued, for what purpose,	
Bonds to be drawn or purchased, how, when,	
Description of mortgaged property,	
Sinking fund, provisions of,	
Statements to be furnished trustee,	
Releases, power of making,	
Default,	
Charges for accepting trust,	
Charges for certifying bonds,	
Charges for paying interest,	
Charges for other services.	

The back of the sheet is headed "Other Provisions of the Mortgage or Deed of Trust," and is used when the printed form of abstract is unsuited to any particular document or when the space provided is insufficient. If this page is not enough, additional sheets are inserted as required. A very brief abstract of the contents of each article of the mortgage, arranged by number in the same order in which they appear in the original document, is also helpful. Following the abstract, brief entries can be made, in

SHEET NO. _____ ABSTRACT _____		NAME _____	NO. _____
Mortgage or Deed of Trust	Bonds to be issued, how, when	Statements to be furnished Trustee	
Dated _____			
Recorded _____			
	Bonds issued for what purpose		
Lien		Releases Power of making	
Amount			
Interest rate			
Interest due			
Interest payable at			
	Bonds to be drawn or purchased, how, when	Default	
Bonds Due			
Bonds Payable in Gold or Coin			
Bonds, Coupon or Registered	Description of Mortgaged Property	Charges for:-	
Bonds, provision for exchange from one class into the other		Accepting Trust	
		Certifying Bonds	
	Sinking Fund, Provisions of	Paying Interest	
Bonds, Denominations and Numbers of		Other Services	

NO.

[illegible]

chronological order, of any important transactions which have a bearing on the case.

Sheet B.—Record of bonds received, certified and delivered. The trust number and title of the account are shown at the top. The upper third of the page is devoted to bonds received and bonds certified. At the left-hand side are columns for the date, bond numbers, and amount of bonds received. The bonds certified section to the right has columns for date, certified by, bond numbers, and amount, the series being repeated. The remaining two-thirds of the page is for the record of bonds delivered. This section occupies the entire width of the sheet and contains columns for date, whose order, delivered to, coupon, bond numbers, and amount. By the omission of the "delivered to" column and the substitution of one headed "received by," following the amount column, the receipts for bonds delivered can be taken on the same sheet. The difference between the bonds received and bonds certified shows the bonds on hand and uncertified. The number of bonds certified, less the bonds delivered, gives the balance of certified bonds on hand. The form is duplicated on the back of the sheet, and in large bond issues several leaves may be needed for the same security.

Sheet C.—Record of bonds paid, cancelled, and cremated or returned. The record of securities retired is kept on this sheet and shows the various steps in the process, as the form just described does in the matter of their use.

The upper two-thirds of the page is devoted to bonds paid and bonds cancelled. The bonds paid section contains columns for date, numbers, and amount, the series being repeated. To the right of this section is that for bonds cancelled, containing columns headed date, cancelled by, numbers, and amount. The remaining section, occupying the lower third of the page, has columns headed date, whose order, coupon, bond numbers, amount, how disposed of, and a signature column for receipts in case of return of the cancelled bonds, or, in case of cremation, for the signature of the officer attesting this fact.

When an account is closed, all its sheets are put in a transfer binder. Both open and closed accounts are kept in the order of their trust numbers.

A special record of the issue of coupon and registered bonds is kept when the two classes are interchangeable at the pleasure of the security holder. The rules of the New York Stock Exchange require that when such exchange is made, the numbers on the original bonds must appear on the securities issued in lieu of them.

The books just described relate to the documents and history of each trust, and do not provide records of cash transactions. Receipts and payments of cash enter into most, if not all, corporate trusts, but as these closely correspond to the transactions involved in individual trusts, the necessary forms and operations are described in later chapters.¹

The trustee should see that any taxes on the issue of securities are paid. The federal stamp tax on the issue of corporate securities is usually paid by affixing the requisite stamps to the mortgage or the trust agreement and endorsing a notice to such effect on the bonds or other securities.

FISCAL AGENT

As fiscal agent the trust company takes such general or special charge of the finances of its corporation client as the agreement in each case provides. It may virtually assume the rôle of treasurer, making all collections and disbursements, or it may merely receive securities for safe-keeping, or make investments or collect income. It may act as fiscal agent for the payment of coupons, interest, dividends, and principal moneys, under the terms of a mortgage, or independently of any trusteeship. In both cases the procedure is identical, but in the former the authority is found in the mortgage or trust deed; in the latter, an agreement is entered into, defining the duties and liabilities of the fiscal agent and the corporation for which it acts. An abstract sheet in the general record of corporate trusts should give the details of the appointment. For the payment of all coupons, bonds, interest, and dividends, payable at the office of the trust company, a special window may be provided in the corporate trust department.

All moneys received for disbursement by the fiscal agent, both

¹ See p. 334.

income and principal, are entered in a scratcher and are passed over to the trust department receiving teller for deposit in bank.

Coupons are presented for payment in envelopes specifying the title of the security, number and amount of the coupons, and the name of the institution or individual presenting them. Coupons representing interest on tax-free covenant bonds, except in the cases noted in footnote 1 on page 78, must be accompanied by proper ownership certificates signed by the owner of the securities.¹ The requirements covering coupons on other classes of bonds are described in the same footnote. Payments are made, when possible, by check. On the stub of the check book are shown the name of the payee and the title and total amount of each sort of coupon paid. To provide for cash payments, a petty cash account is opened in the corporate trust ledger, and a check is drawn for a fixed amount, sufficient for ordinary needs, to be kept in a cash drawer. A "petty cash" book is used in which the payments are itemized as they are made. The amount of money and paid coupons on hand at all times equal the balance of the account in the corporate trust ledger. At the close of each day or when the money is exhausted, a check is drawn covering the total amount paid out, the stub showing the several coupon or other accounts and the amount to be charged to each. The petty cash book is settled periodically or when the fund is replenished.

All payments by check are entered in the scratcher from the data on the stubs. In the scratcher these payments are grouped according to the accounts to be charged. The various items composing each charge are entered short, the aggregate being extended. The totals in the scratcher settle with the total payments shown by the stubs and agree with the face value of the paid coupons. The scratcher is used by the bookkeepers in making the necessary entries in the corporate trust ledger. But one posting is made, covering the day's total payments against each account. Each sort of coupon is in a separate envelope when presented for payment. They are stacked like a card index in tin boxes of the proper size to hold the ordinary coupon envelope, and when sorted all those containing coupons of

¹ See Regulations of the Internal Revenue Bureau.

the same issue are placed together. After the day's business is settled, and the coupons of each issue are found to agree with the figures in the scratcher, they are cancelled by having one or more holes punched in them. All cancelled coupons from each sort of bond are kept together, and at proper intervals they are sent with a statement of the account to the company which issued the security.

The statement is an ordinary cash account showing the balance on hand from last statement, cash received, payments made, and balance on hand representing the value of the coupons still outstanding. With this statement it is usual to send a letter of advice and a form of receipt to be signed and returned. The following details are shown in the receipt: description of coupons, when due, coupon number, number of coupons, @, amount, and total.

In an issue of bonds subject to redemption, great care is required to detect coupons presented for payment which have been detached from called bonds. As calls are often advertised in only one or two newspapers they may escape the notice of bondholders; hence it is well to refuse payment of the coupon due on the date when interest ceases unless the called bond is presented at the same time, or, if the coupons are paid, pains should be taken to notify the payee of the call. Otherwise the bonds may be held until the following interest period, and the unsuspecting owner's first notice may be the return of the next coupon with a statement that the bond had been previously called and that interest had ceased.

Occasionally coupons are payable only on the order of the registered owner of the bond — another annoying pitfall for the coupon clerk to guard against. Fortunately, such provisions are rare.

For the payment of dividends, dividend lists are prepared and certified as correct by the transfer agent. The transfer agent may be the transfer department of the same trust company which acts as fiscal agent, or some other corporation; or, in the case of organizations which transfer their own shares but employ a fiscal agent to distribute profits, it may be the company declaring the dividend. The dividend list is prepared from the stock ledger on loose sheets ruled in columns for the name and address of the stockholder, the number of shares held, the check number and amount of the dividend, and the name and address of the payee. When received from

the transfer agent, the dividend sheets contain the names and addresses of the stockholders, the number of shares held by each, and directions as to the payment and disposition of the dividend. The sheets are preferably made out on the typewriter. To the data received the fiscal agent adds the number and amount of each check. The dividend sheets serve as stubs, and from them the checks are prepared. Loose checks are used, numbered consecutively. The dividend sheets and corresponding checks can be distributed among a number of clerks and a long list can be disposed of rapidly. If the dividends belonging to a large number of stockholders are payable to a single corporation or individual, or if stock is held by a corporation acting in various capacities for a number of accounts, such holdings can be listed on a single dividend sheet, and one check be issued covering all. In such cases a letter of advice is sent with the check, showing the items represented by it transcribed from the dividend sheet. The name of the payee and the amount in figures are often written on the checks by hand. The amount in words in the body of the check is often filled in with a rubber stamp. For this purpose racks of stamps are kept on hand, with the various combinations needed for dividend distributions at various rates. Indelible ink is used as a safeguard against alteration. Odd amounts for which no stamps have been provided can be written in by hand. The amount stamped in the body of the check can easily be compared with the figures when the checks are being signed. If the dividend list is long, the names and addresses of the payees are printed from a stencil in a position to show in an "outlook" envelope.

The dividend check may contain full information as to the nature of the disbursement. In this case it is not necessary to enclose a card with the check. If one is sent, the following form is sufficient:—

THE MODERN TRUST COMPANY

The enclosed dividend check is mailed you in accordance with the terms of a standing order on file with this company.

Please deposit the check or have it cashed promptly.

No acknowledgment is required.

Prompt notice should be given if address is changed.

When no details are given on the check, it is customary to enclose an explanatory card specifying the name of the company, the rate of the dividend, and the date when payable, in addition to the more general information given in the form shown above.

Where "outlook" envelopes are not used, the addressing can be most rapidly and accurately performed by the use of a mechanical addressing device, and in case of loss the stencil remains to prove where the dividend was sent. The stencils are kept in boxes, stacked on edge in alphabetical order. Changes are made as notice is received, so that the list is constantly ready for use. Where the envelopes are addressed by hand, this is often done at slack times, in order to provide occupation for the clerks in the department. As each envelope is addressed it can be dropped back of the card in the stockholders' index giving directions as to the disposition of the dividend. This makes it easy to alter addresses on both cards and envelopes at the same time and to have a set of envelopes constantly ready for use.

If a number of checks payable to various stockholders are mailed to the same individual or company, it may be worth while to use an alphabetical sorting tray so that all the checks to be sent to a single name can be put in the same envelope.

When the dividend checks are issued, the ledger account containing the funds to meet the disbursement is charged through the scratcher with the total payment. As the checks are paid and returned cancelled, they are checked off on the dividend list. The amount of the outstanding checks is verified by settling the deposit account against which they are drawn. The cash balance in the account equals the amount of the unpaid checks. The lists for each company whose dividends the fiscal agent pays are filed chronologically in binders.

The procedure in paying registered interest is the same as in paying dividends, except that if the bondholder has filed no ownership certificate for the purpose of the federal income tax the withholding agent must in some cases make out the appropriate certificate.¹ In making principal payments, whether of coupon or registered bonds, the securities are presented as in the case of coupons, and

¹ See Regulations of the Internal Revenue Bureau.

the items are treated in exactly the same way. If the principal is registered, a power of attorney to transfer the security to bearer, and, when required, evidence of the authority for making the transfer, must accompany the papers.

The bonds, after payment, are cancelled, unless the issue is to be extended or for some other reason the lien of the mortgage is not extinguished.

When the fiscal agent takes charge of the securities or other assets of a corporation and makes investments, collections, and disbursements, the relation is precisely similar to that of agent for an individual, and the method of procedure is the same.

REGISTRAR

The New York Stock Exchange, like most other stock exchanges, in its constitution requires that all active listed stocks must be registered. This Exchange also requires that a trust company or other agency shall not at the same time act as registrar and transfer agent of the same corporation. In the popular mind, and even in the minds of some trust company officers, the difference between the duties of the two positions has been more or less confused. Both have been created to safeguard and facilitate the passing of title to shares of stock, but "the duties of a transfer agent and a registrar are not synonymous; they are distinctive. One is called upon to examine and give clear titles to property transfers, and the other is merely to record such transfers. Were both to assume equal responsibility, it would cause a conflict of authority and a delay that would render business almost impossible of execution, especially in New York, where the volume of business is tremendous. Consider the fact that some transfer agents alone act for corporations whose total capital aggregates a billion and a half of dollars.

"During the days of great speculation by officers of railroads, they started the printing-presses and over-issued many shares above the authorized capital, causing panic and ruin. Subsequently, the registrar was established for the sole purpose of preventing such over-issue, assuring the investor that the certificate which he had purchased was one within the amount of the capital of the corpora-

tion. Now no stock can be listed by a corporation on the Stock Exchange without complying with its rules. These rules require the appointment of a registrar so as to prevent any over-issues.

"The form of contract with the registrar is as follows:—

"'You are hereby appointed Registrar of this Company to register its Capital Stock, consisting of.....Shares, par value.....dollars.'

"This is followed by a notice from the Stock Exchange authorizing the registrar to register a certain amount of shares of..... corporation. The authority contained in the above merely prescribes a limited duty, which is: To record shares of stock to a certain amount. This service is recognized by all corporations, by the transfer agent, and by the Stock Exchange. Where certificates are subsequently transferred and presented to the registrar with the new certificates, the registrar does not examine the indorsements or titles to these certificates. They agree that it is solely the duty of the transfer agent to make that examination—a duty for which the transfer agent is suitably paid, the compensation of the registrar being about one-half less."¹

Although there are few decisions of the court to guide one to a definition of either the duties or the responsibilities of registrars, an examination of the causes leading to their appointment and of the practical duties they perform sustains the view quoted above. On no other assumption can the present position of the registrar well be explained or justified. Those registrars who hold the contrary opinion, that "the duties and liability of a registrar do not differ in any marked degree from those of a transfer agent,"² virtually duplicate the functions of the transfer agent. It has been suggested that the designation "agent to register transfers" would be safer and more correct than the word "registrar."³ The latter name is, however, in common use and is gradually becoming better understood. Where there is a real risk of misinterpretation, the trust

¹ "Duties and Responsibilities of a Registrar," E. C. Hebbard. *Trust Companies*, Vol. I, p. 989.

² "The Duties and Liabilities of Trust Companies acting as Transfer Agents and Registrars," Henry J. Bowdoin. *Proceedings Trust Company Section, American Bankers' Association*, 1900.

³ "The Duties and Liabilities of Trust Companies acting as Transfer Agents and Registrars," Felix Rackemann. *Proceedings Trust Company Section, American Bankers' Association*, 1898.

company, before accepting the position of registrar, can always resort to the simple expedient of executing a contract which specifically limits its liability.

When the trust company is appointed registrar of a stock, an account is opened in the record of corporate trusts. The abstract sheet should specify the title, classes of stock to be registered, the compensation to be received, and any other pertinent facts. The following sheet, ruled in ordinary ledger form, is headed with the trust number and title of the stock. A credit is made for the total authorized issue stated in shares. On the debit side a charge is made for the total number of shares registered as having been issued. These debit entries are initialled by the officer in charge of the department for the total number of shares issued and registered (the total original issue). The difference between the debit and credit sides represents the authorized stock not yet issued. This record is kept as a safeguard against an over-issue of stock. It can if preferred be kept on cards or in a small bound ledger. After the entire authorized issue is registered, new certificates are registered only as outstanding ones of an equal amount are cancelled.

Each certificate received by the registrar is examined and entered in the stock register before being signed or cancelled, as the case may be. A separate stock register book is used for each stock registered. Each page of the stock register is divided into two sections: that on the left, for certificates cancelled, contains columns for certificate numbers and number of shares; the right-hand section, for certificates registered, has columns for date of registry, name in which new stock is issued, certificate numbers, shares, and date of cancellation. Proof of the total issue is made by subtracting the totals of the "stock cancelled" columns from the totals of the "stock registered" columns, the balance being the number of shares outstanding. The total of outstanding shares can also be found by listing the open items in the "certificates registered" section.

If a company has more than one class of stock, a separate book is kept for each. For inactive issues, bound volumes of uniform size are satisfactory. For large and active issues, loose sheets should be used so that the work may be divided among a number of clerks. The register can be further divided into files for 100-share

certificates, 10-share certificates, and certificates for odd lots. A binder should be used which permits the sheets to be readily inserted and removed.

In times of great stock market activity, the duties of the registrar may be very heavy and, as one day's work cannot go over to the next, it is necessary to have an effective organization and accurate and systematic methods.

TRANSFER AGENT

Title to certificates representing ownership in the capital stock of a corporation may be transferred on the books of the company by the owner in person or by a lawfully constituted attorney. A century ago a separate certificate was often issued for each share of stock. When the stock was sold, the owner usually made the transfer in person, and the original certificate was reissued with the purchaser's name indorsed upon it and attested by the proper officer. With the growth of stock companies and vastly increased dealings in their shares, it became necessary to facilitate the passing of title to stock. The response to this need has been the development of the transfer agency. Although many companies, even large corporations whose stock is actively dealt in, still transfer their own shares, it is now customary to appoint another responsible corporation — most often a trust company — to perform this duty. The trust company occupies the position of agent and as such does the work which would devolve upon the transfer clerk of the corporation if the transfers were made in its own office.

When no special contract is entered into, "it would seem generally safe to say that the transfer agent will remain free of any liability to its principal for damage or loss so long as the agent is guilty of no negligence. . . . It is not an insurer and is not to be held to infallibility. It must, however, be cautious and vigilant."¹ Even in the exercise of "caution and vigilance," moreover, many legal points are involved, and liability may be incurred through refusal to transfer, if it is later proved that the papers were in proper shape, so that here, as in other parts of a trust company's business,

¹ "The Duties of Trust Companies acting as Transfer Agents and Registrars," Felix Rackemann. Proceedings Trust Company Section, American Bankers' Association, 1898.

STOCK REGISTER

[illegible]

it is a safe rule to act only on advice of counsel when any doubt exists as to the legality or validity of a transfer.

The transfer agent if negligent may be liable not only to the principal for whom it acts, but also under certain circumstances to the purchasers and sellers of the shares which it transfers. When the transfer agent is in one state and the corporation for which it acts is chartered under the laws of another, new difficulties may arise from the variation in statutes and local practice. In doubtful cases, when a transfer is made by a thoroughly responsible individual, firm, or corporation, a bond of indemnity can sometimes be taken to protect the principal and agent from loss, and prevent a refusal to transfer on account of a trivial irregularity. The transfer agent assumes far more responsibility than does the registrar. This fact is recognized by the larger although still often inadequate compensation which is usually paid the transfer agent.

The great majority of transfers result from stock exchange sales, and in these cases the exchange rules as to "good deliveries" must be complied with.¹ Securities in the names of individuals in fiduciary capacities are not a "good delivery." The words "trustee," "executor," "guardian," etc., on the face of the certificate is notice to the transfer agent of the existence of a trust, and since the instrument or authority creating the trust may give no power of sale, the proper authority must be shown before a transfer can be made. Stock held in this way is often first transferred by the seller into the name of some individual or firm (for instance, the brokers commissioned to dispose of it), and is then offered for sale.

The New York Stock Exchange, before a stock can be listed, requires a statement of the location of the transfer office and name of the transfer agent, and, after the stock is listed, any change in transfer agents or place of transfer must be approved by the proper committee of the Exchange.

Stock exchange rules also prescribe the kind of certificates which shall be used for listed stocks. They require the use of engraved plates and such combinations of color as will prevent counterfeiting through photographic or other processes. Stock certificates are bound in books, one to a page, and numbered in consecutive order.

¹ See Appendix. New York Stock Exchange, Rules for Delivery, p. 496.

The officers of the issuing corporation sign the certificates and affix the company's seal, and then entrust them to the transfer agent. At the time of making a transfer the transfer agent enters on the certificate the name of the new stockholder, the number of shares, and the date of issue, signs the certificate, and then sends it to the registrar to be countersigned and registered. It is often stated on the face of the certificate that it is valid only when signed by the transfer agent and countersigned by the registrar. The stub gives the certificate number, the date and name in which it is issued, and the number of shares. When the certificate is delivered, a receipt may be taken on the stub. On the back of the certificate an irrevocable power of attorney is engraved, the following being the form in general use:—

<p>Notice.—Signatures to all powers of attorney and also all powers of substitution must be guaranteed by party presenting certificates of stock for transfer.</p>	<p>For Value Received, hereby sell, assign, and transfer unto Shares of the Capital Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint..... Attorney to transfer the said stock on the Books of the within named Company with full power of substitution in the premises.</p> <p>Dated 19.....</p> <p>In presence of</p>	<p>Notice.—The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular without alteration or enlargement, or any change whatever.</p>
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When a certificate of stock is to be transferred, the owner signs the power of attorney, the signature is witnessed and is guaranteed by a member of the Stock Exchange. To complete the transfer, it is then necessary only to fill in the name of the purchaser and the name of the clerk who acts as attorney. If the name of the purchaser or his attorney is not inserted the certificate is said to be in bearer form, which means that it is ready for transfer at any time and can pass from one owner to another by delivery of the certificate. In this way a certificate may pass through many

hands without any transfers on the books being made. When the name of the attorney, either a firm or an individual, has been filled in, but it is not desired to transfer the shares, a power of substitution in the following form is stamped on the back of the certificate and executed. This again makes the certificate a good delivery.

I (or We) hereby irrevocably constitute and appoint
 my (our) substitute to
 transfer the within named Stock under the foregoing
 Power of Attorney, with like Power of Substitution.
 Dated.....19.....

In presence of

On presentation to the transfer agent, the power of attorney must be carefully scrutinized to see whether it has been properly executed, witnessed, and guaranteed, before the stock is transferred.

It was a common practice to paste the cancelled certificates back in the books from which they were originally taken, the open items being represented by the stubs to which no certificates were attached. This is analogous to the almost forgotten custom of pasting cancelled checks in the books from which they were torn. Stamping the stubs with the date of cancellation, arranging the certificates chronologically as cancelled, those for each day in numerical order, and filing the packages by dates, is the more modern method. The other plan serves the purpose in the case of a very inactive stock.

In addition to the abstract sheet in the record of corporate trusts, the transfer agent's records are kept in stock transfer books and stock ledgers. Bound transfer books are used, a separate one being provided for each issue of stock. At the top of each page is the name of the corporation whose shares are transferred, sometimes followed by the statement, "The undersigned, owners and holders of stock of the above-mentioned company, for value received, do hereby, by our respective attorneys, duly appointed, respectively assign said shares of such capital stock in the manner below set forth." The rest of the page is divided into two sections,—the left hand for certificates cancelled, and the right hand for certificates issued. The "cancelled" section contains columns for the numbers of the

IT THE MODERN TRUST COMPANY. TRANSFER AGENT

The Undersigned, owners and holders of the Stock of the above mentioned Company, for value received, do hereby, by our respective attorneys, duly appointed, respectively assign said shares of said Capital Stock in the manner below set forth.

[illegible]

certificates, the number of shares represented by each, the ledger folio, names in which stock was registered, and a column in which the attorney making the transfer signs his name. The "certificates issued" section has columns for date, number of certificate, number of shares, ledger folio, name and address of stockholder. The total number of shares surrendered and cancelled agrees with the total number of shares issued. For an active stock, two sets of transfer books used on alternate days for making transfers, and postings to the stock ledgers, respectively, greatly facilitate the work of both transfer clerks and bookkeepers.

Another form of transfer book is the following: at the left of each right-hand page are columns headed ledger folio, certificate number, and shares. To the right of these columns under the words "for value received" the names on the certificates to be cancelled appear at the top of the page; below them the words "do hereby assign and transfer to," with the names into which the shares are transferred, and at the bottom of the page the name of the corporation and the signature of the stockholder or attorney who makes the transfer. Each certificate cancelled and each one issued occupies one line, the necessary data for posting in the stock ledger appearing in the columns at the left of the page. The shares column is ruled across the middle and at the bottom to show the totals of shares cancelled and issued, which must agree. The left-hand page is ruled in four columns: placed to order of, shares, transfer and issue certificate to, and shares; and is used when certificates are placed to order and instructions for transfer are given later.

Either of the forms of transfer book described makes it possible to transfer into one certificate a number of certificates previously standing in different names, as all items which are to go to the same name can be grouped together. In the old form, in which a separate transfer was made by the attorney representing each owner, this could not be done, consequently a single individual buying from different sources would receive at least one certificate representing each lot. When the shares represented by part of a certificate are sold, the number to be transferred is stated in the power of attorney, and new certificates are issued covering the shares sold and the balance which is reissued without change of name. When an

exchange of certificates in the same name is desired, splitting a larger certificate into several for smaller amounts or consolidating several small certificates into a larger one, the title to the shares does not change. The transaction shows on both sides of the transfer book as an exchange of certificates only, and no power of attorney is required.

If sales are made to various purchasers of shares represented by a single certificate, the stock may be delivered "by transfer." In other words, the seller takes the certificate to the transfer agent and makes the necessary transfers, either transferring the stock directly into the names of the purchasers or else placing it to their order. In the latter case, the transfer agent does not issue new certificates until written instructions are received from the persons to whose order the stock was placed. If such instructions are not received within a fixed time or before the transfer books close for dividend or other purposes, the stock is transferred into the names of the firms or individuals to whose order it had been placed.

The stock ledger can be bound or loose-leaf. For active issues, the loose-leaf form is preferable. There is a separate ledger for each company whose stock is transferred. The stockholder's name appears at the top of the page, and the ordinary form of stock ledger is used with a balance column in the centre. The left-hand side of the page shows certificates cancelled, and has columns for date, name, transfer folio, certificate numbers and shares. The certificates issued are shown in a corresponding series of columns on the right-hand side of the page.

If shares are issued before they are fully paid, and instalments are called for from time to time, the face of the certificate bears the statement that the first instalment of a specified amount has been paid, and later payments are indorsed on the back of the certificate. For such shares the stock ledger requires the addition of money columns on both debit and credit sides, so that the paid-in value as well as the number of shares may show. In making transfers, both the number of shares and amount paid in are specified. It is not necessary to record the paid-in value when the stock is full paid or when there is no likelihood of further instalments being called for.

Postings are made from the transfer book on the day following that on which the transfer was made. When a loose-leaf stock ledger is used, it is advisable to make one person responsible for the volume and to require him to initial each sheet which is inserted. A transfer file is kept for closed accounts. The leaves are kept in alphabetical order both in the stock ledger and in the file. Dividend lists are taken off on the typewriter on sheets such as have already been described.¹ Instead of closing the transfer books while the dividend is being prepared, the custom is growing of declaring dividends payable to stockholders of record at the close of business on a fixed date some time in advance, the books being closed only over night. This obviates the many delays and annoyances incident to keeping the transfer books closed for any length of time, and is a practice heartily to be commended. It, however, necessitates having the stock records in such form that a trial balance can be rapidly taken off. Loose-leaf ledgers and plenty of clerical assistance make this a simple matter, as the ledger can be divided and settled by letters or other arbitrary divisions. If the trial balance cannot be taken off over night, no transfers are posted till it is completed.

The method of paying a dividend has already been described in connection with the duties of the fiscal agent.¹

Registered bonds are transferred exactly like stock. Usually the same bonds are reissued after the change of ownership has been recorded on the back of the bonds. Sometimes a power of attorney is engraved on the back, as in the case of stock certificates, and a new bond is issued whenever a transfer is made. If the original bond is to be reissued, loose powers of attorney are used in making transfers. Both transfer books and ledgers for bond issues are kept in the same way as those for stocks, and the method of paying interest on registered bonds is similar to that of paying dividends.

When a stock is listed on the stock exchange of more than one city, a transfer office is maintained in each. If the stock ledgers are kept in one city as headquarters, the other transfer agents report daily all transfers they have made, furnishing copies of the transfer sheets from which postings are to be made in the stock ledgers, and sending the cancelled certificates to the headquarters city the fol-

¹ See page 271.

lowing day. If stock ledgers are kept in each city, the transfer agents are required to report daily to each other the number of shares cancelled in a city other than that in which they were issued, and therefore discharged from the books of the issuing city. The better plan is to keep the stock ledgers in the headquarters city.

The transfer agent should transfer no stock unless the federal tax and the state tax (if any) on stock transfers are paid and should also make sure that the federal tax is paid in the case of an original issue.

VOTING TRUSTS

Voting trusts provide an item of business which is increasing in volume. In connection with the organization or reorganization of a corporation it is often desirable for a while to keep the control of the management and policies in the hands of the stockholders who are at the time in the majority, although they may wish to be free to dispose of their stock. They therefore deposit their stock certificates with trustees, who issue in exchange stock trust certificates. The trust certificates carry the right to dividends and are dealt in practically in the same way as stock certificates. The trustees, however, have the right to vote on the stock during the existence of the voting trust. The laws of the different states vary with respect to the irrevocability of these trusts. In New York, for example, such a trust may be made binding upon the parties for ten years.

In most cases the voting trustees appoint a trust company their agent to hold the stock certificates, to issue and transfer the stock trust certificates, and to distribute the dividends received on the stock to the holders of the trust certificates.

MANAGER OF UNDERWRITING SYNDICATES

“An important function of the private banker is ‘placing’ securities for corporations issuing them — that is, undertaking to dispose of an entire issue, or a specific amount of an issue, in the market upon certain terms agreed upon. Ordinarily the price is fixed by agreement with the officers of the corporation issuing its shares or bonds, either on its first organization or a reorganization, or on an

increase of capital, and the banking house receives a commission on the amount disposed of by it. Sometimes the issue, or a certain portion of it, is underwritten by the banking house, which means that it obligates itself to dispose of the entire amount on the terms agreed upon, and what it fails to sell on those terms it is bound to take and pay for itself. In case of a large transaction of this kind, a syndicate may be formed consisting of a number of bankers and banking houses, who agree together and with the other party concerned to carry the operation through. Each member of the syndicate binds himself to take a certain portion of the securities and to furnish his proportion of any cash that may be required in financing the operation, and for this service a certain percentage of the amount is to be paid as a commission. . . . This device has been resorted to largely in the consolidation of industrial concerns in those combinations known as 'trusts' and in floating new issues of railroad stocks or bonds. It transfers the risk from the corporations to the syndicates and concentrates and facilitates financial operations that are too large for one concern to handle."¹

What is true of the private banker also applies to the trust company. It may become a member of underwriting syndicates, in which case its banking department only is concerned in the transaction. When, however, the trust company either organizes a syndicate itself or is chosen as manager, the machinery of the corporate trust department may be called into play. The manager of an underwriting syndicate is usually chosen from among its members to take charge of the details of the transaction. For this service a commission is paid. The members of the syndicate may be called on for cash representing the value of unsold securities, which are turned over to them, to be held subject to the call of the manager. Such "syndicated" securities cannot be disposed of until the termination of the underwriting agreement, the manager alone being empowered to trade in them for the benefit of the syndicate as a whole. When the syndicate is formed for the purchase and sale of bonds of recognized value, the issue is sometimes over-subscribed as soon as it is offered, and in this case the members may not be required to advance any money, and the manager's only duties are

¹ "The Modern Bank," Amos Kidder Fiske, p. 224 *et seq.*

to pay for the securities, receive payment from the purchasers, and distribute profits to the members of the syndicate. To float an undesirable issue, stock jobbing operations are sometimes resorted to, and the help of various bankers and brokers is enlisted to hold or advance the price of the new securities. Needless to say, this is business in which a trust company should not engage.

The bookkeeping of syndicates consists of cash accounts representing the operations of the syndicate as a whole and the interest of each of its members. A record is also kept of the securities received and disposed of.

The operations of underwriting syndicates are usually carried on with the least possible amount of publicity, and the members are rarely given more than the barest statements of final results. If a syndicate is very successful, partial distributions of profits are made from time to time. When the securities have all been sold, or the syndicate has been dissolved through the expiration of a time limit, the manager closes the accounts and distributes the final profits. If the syndicate has been unsuccessful, its termination may leave the members in possession of securities which cost them more than the market value and which cannot be disposed of except at a loss.

DEPOSITARY UNDER PLANS OF REORGANIZATION

While in theory the railroad mortgage is similar to that on the smallest dwelling house, the analogy ends, in practice, when a default occurs. With the dwelling house, the lender forecloses the mortgage and effects the sale of the property. In the case of a railroad the value of the security depends on the system remaining intact. When interest defaults, a committee representing the security holders is usually formed and a plan of reorganization is agreed upon in order to prevent the disintegration of the system by foreclosure of the mortgage or mortgages secured on its component parts.

The reorganization committee, either before or after formulating a plan for the rehabilitation of the property, calls for the deposit of the defaulted securities, most frequently with some trust company designated as depository. In exchange for the securities, temporary receipts are given, good for a limited number of days only, and

these are later exchanged for the depositary's engraved certificates of deposit which are negotiable on the stock exchange.

Trust companies usually have on hand a supply of such engraved certificates, on which the necessary details of each reorganization can be printed. The certificate specifies the kind and value of the security deposited and the terms under which the certificate is issued. It states that the trust company, as depositary under the plan of reorganization formulated by a committee whose names are recited, holds the securities in accordance with the terms of an agreement which is assented to by the security holders by the deposit of their stocks or bonds and acceptance of the certificates of deposit.

Reorganizations may be made necessary either by a corporation's inability to meet fixed charges or by the consolidation of several corporations into a single company. In either case, the duty of the trust company acting as depositary is the same. The securities are virtually held in escrow, the reorganization committee and the bondholders or stockholders being the other parties to the agreement.

Reorganization committees are usually formed of individuals who are more or less directly interested in the securities affected by the default and whose names are a guarantee of good faith. The initiative in the formation of such protective committees is usually taken by the largest security holders, and the membership is indicative of the interests represented. The scheme of reorganization aims to bring the fixed charges safely within the earning power of the corporation and to determine equitably the rights and claims of all security holders. As important members of reorganization committees, the officers of a trust company are often called on to solve such problems.

The corporate trust department is interested not so much in formulating plans of reorganization as in carrying out their provisions. For the protection of security holders prompt action may be necessary, and the mere physical work of receiving deposits is often very great. Sometimes the depositary gives notice that only a fixed number of lots or "schedules" of securities will be received each day. To expedite matters, a cursory examination of the securities is made and sometimes the so-called five-day receipt is given which permits a more careful and thorough examination before the

certificate of deposit is issued. Just as much care is taken in receiving stocks and bonds under plans of reorganization as when they are presented for transfer, because the title to the securities vests in the committee in accordance with the terms of the plan of reorganization, and in case of foreclosure and the issue of new securities in lieu of those surrendered, the transfers must actually be made so as to carry out the required legal formalities.

As each lot of securities is received it is listed and given an accession number corresponding to the number of the temporary receipt. The securities forming each schedule are kept together, their final disposition depending on the provisions of the plan under which they are received. To be negotiable the engraved certificates of deposit are often required by stock exchange rules to be registered like certificates of stock.

When assessments are called for, or distributions of principal or interest are made, the certificates of deposit are presented at the office of the trust company to have the proper indorsements stamped upon them. On the successful carrying through of the plan of reorganization, the certificates of deposit are returned to the trust company and the new securities are delivered in their place.

For each reorganization, separate sheets are used. The reorganization record bears the title of the account and of the trust company and the capacity in which it acts. The left-hand page contains columns for the date of each deposit, the number of the certificate of deposit, the name of the owner, and the various classes of securities deposited. On the right-hand page are columns headed by the titles of the new securities to be given in exchange and one in which receipts may be taken when the securities are actually delivered. The book is printed and ruled to suit the requirements of each reorganization. The footings of the columns are used to prove the correctness of the distributions under each schedule. When a certificate of deposit is cancelled and one or more are issued in its place, the schedule represented by the cancelled certificate is ruled out and the new ones are entered. Assessments or distributions of cash or securities are entered in the reorganization record, and the certificates of deposit are appropriately stamped.

Each plan of reorganization may need the elaboration of fur-

ther details to meet its special requirements, and before the work is completed the trust company acting as depositary may be retained in other capacities, such as trustee, transfer agent, or registrar.

ASSIGNEE AND RECEIVER

When the affairs of a firm or corporation are placed in the care of a trust company as the result of insolvency or any other cause, the corporate trust department takes charge of the business. The appointment of the trust company may be made at the instance of the owners of the business who wish to protect their property, or at the instance of creditors who wish to protect their interests. It may be effected by deed of assignment, in which case the powers and duties of the trust company so appointed assignee are governed and regulated by, and in accordance with, the terms of such deed. If the business is to be wound up, the assignee's duties usually consist of collecting the debts due and collectible, and requiring creditors to prove their claims, which are scheduled for payment and met and paid in whole or ratably in part as the available assets permit. An assignee is held to strict accountability, and not only must use the best business judgment, but must act in strict compliance with legal requirements, frequently securing an opinion of counsel, or, in the case of certain acts, an order of court. As the expert knowledge of those who have been conducting the business is often of value, it is not unusual for the assignee to retain the services of such employees as are needed, and frequently a representative of a firm which is in liquidation is made a co-assignee.

What has been said of the requirements for the trust company as assignee applies in part to the requirements imposed upon it as receiver. The term "receiver," however, is usually confined in its application to an appointee of a court. The object of a receivership is usually to tide an embarrassed enterprise over a period of difficulty. The business must be conducted intelligently, and needed capital sometimes supplied until times of greater prosperity or the successful carrying out of a plan of reorganization puts it on a solvent basis and makes possible the discharge of the receiver and the return of the property to its owners. The receiver is a ministerial

officer of the appointing court, with no powers but those conferred upon it by such court. A trust company acting as receiver is better able than an individual to furnish additional capital, if amply secured, and thus successfully to meet the difficulties which withdrawal of credit and restricted capital have temporarily brought upon an otherwise prosperous business. The courts authorize the issue of receivers' certificates to provide funds for purchase of equipment and the proper maintenance of the property and conduct of the business when the creditors are benefited by such expenditures. Such certificates may in certain cases be made a first lien on all assets, taking precedence even of mortgages and other secured obligations. The receiver thus secures the capital necessary to make the property more productive and to secure the largest return from the business. In some trust companies a small committee of the board of directors is appointed to act with the officer in charge of the affairs of the involved business, and, where technical knowledge is required, the services of experts may also be secured.

A set of double entry books is opened for each assigneeship and receivership, the controlling account alone appearing in the general books of the corporate trust department. According to the nature of the case, the business may be transacted at the office of the trust company or at that of the insolvent company.

AGENT

Trust companies as agents often take up lines of business which they either cannot or would not engage in on their own account. Thus, a trust company can act as agent for fire or life insurance companies, for water, gas, and other public service corporations. In new communities and where it is difficult to find responsible representatives, the trust company can often render efficient service and secure a steady income without risk by assuming agencies of various sorts. The books and methods employed depend on the duties to be performed, but conform as nearly as possible to the general system in use, with such auxiliary records as may be needed in each case.

ACCOUNTS

Whether there be only one trust department or two, the book-keeping for both corporate and individual trusts can usually be combined. A single general ledger, journal, and cash book are used, and in these books the transactions of the two departments are separated by having the necessary controlling accounts for each. The same division is maintained on the balance sheets.

Whatever the capacity in which the trust department acts, each corporate account, like an individual trust, when received is given an accession number by which it is identified. The record of corporate trusts, which corresponds to the record of individual trusts,¹ contains an abstract sheet showing the details of each appointment, followed by other sheets on which are shown the securities held or such other facts as may result from the character of the account. When for convenience all trusteeships of corporation mortgages are grouped in a special volume, an abstract sheet should be inserted in its numerical place in the general record of corporate trusts, giving the title of the account and referring for further information to the special record of corporation mortgages.

A blank form of abstract sheet is used, or a series of printed forms may be prepared to meet the requirements of the various capacities in which the corporate trust department acts. The form adapted to trusteeships has already been described,² as well as the sheets which follow for records of bonds received, certified, and delivered, and of bonds paid, cancelled, and cremated. For investments, sheets similar to those in the record of individual trusts are used.

The corporate trust ledger is exactly like the individual trust ledger, and where there is only one trust department the accounts are kept in the same volume.³

¹ For Record of Individual Trusts, see p. 338.

² See p. 264.

³ For Individual Trust Ledger, see p. 348.

COMPENSATION¹

When acting as trustee under corporation mortgages, a definite charge may be made for accepting the trust, and a fixed amount per annum thereafter for paying coupons and performing other duties. For the certification of bonds it is usual to charge fifty cents per bond in the case of large issues, and one dollar for small issues. The figures, however, vary in different places. The charge for certifying the bonds may be the only one, although an additional charge is usually made for counsel fees. In case of default and consequent foreclosure of the mortgage, extra payment is made to the trustee covering all services incident to the foreclosure.

For the disbursement of sinking funds, interest, or coupons, the temporary use of the money may be considered adequate compensation, if the amount involved is large. A commission on the sum distributed or a fixed amount is charged when acting as fiscal agent, apart from duties in other capacities. For acting as registrar or as transfer agent it is usual to make a fixed charge per annum, based on the amount of labor involved. The transfer agent is usually paid about twice as much as the registrar. Compensation for acting as manager of an underwriting syndicate may be a fixed sum or a commission, according to the provisions of the underwriting agreement. For acting as depositary under plans of reorganization, assignee, or receiver, a lump sum is usually paid covering all services. Agency work of various sorts is paid for in accordance with the usual practice in the business which is undertaken; a fixed sum, or a fixed sum and a commission, or a commission only, may be received.

The trust company is in a position to render valuable, and often indispensable, aid to its corporate clients. Large amounts being involved, the great railroad and industrial corporations are willing to pay well for such services. Corporate trust business has, consequently, been a profitable field for the trust companies.

¹ See Appendix p. 472.

CHAPTER XIV

INDIVIDUAL TRUST DEPARTMENT

GENERAL ORGANIZATION

THE cardinal principle of the trust department is its separation from the company's own affairs. A distinct organization is therefore maintained for the conduct of trust business, the capital and surplus of the company supplying a guarantee that its obligations in a fiduciary capacity will be properly fulfilled. Whatever the difference in organization, functions, or management, trust companies in every part of the country unite on this general principle of not mingling their own affairs with their trust accounts. In many companies the trust department occupies entirely separate quarters, and has no connection with the banking department except that of depositor. Expenses and earnings are separately shown, and the situation resolves itself into two distinct businesses conducted by the same president and directors under the authority of a single charter.

The general organization of the trust department provides for the care of the different kinds of securities which are held, the making of investments, the receipt and disbursement of funds, and the proper accounting to the courts and the parties in interest.

In a small or newly formed company the entire business of the individual trust department is usually in the hands of a few employees who attend to all transactions affecting the estates in their control. As the department grows, however, great specialization becomes necessary, and in the largest companies separate divisions are organized for each part of the business.

The plan of organization should always be one which permits of expansion. A single book in the small company is often the nucleus of the division which will later be evolved.

The trust records should conform as nearly as possible to the company's general system of bookkeeping. A frequent statutory re-

quirement is that trust funds and investments shall be kept separate and apart from the assets of the company, and that all investments made in a fiduciary capacity shall be so designated as to show clearly the trust or estate to which each investment belongs. This is a matter of careful record and description, but does not necessarily involve the actual separation of the securities in different safe deposit boxes nor of the accounts in a series of bound ledgers. Still less need one follow the example of a recently organized trust company where the bank examiner on his first visit asked for the balance of uninvested trust funds. To his amazement he was taken to the vault and shown a row of little pasteboard boxes in which the conscientious trust officer was keeping the uninvested balances in cash, literally "separate and apart," to comply with the provisions of law!

APPOINTMENT

The capacity in which the individual trust department acts depends upon the nature of the company's appointment, and the obligations assumed vary correspondingly. Unlike the banking and safe deposit departments, which stand in much the same relation to all their customers, the trust department plays many rôles and cares for property of every sort, both real and personal. The functions of this department have already been described.¹ The method of appointment and subsequent procedure will here be briefly noted.

When a client wishes to name the trust company as his executor, it is customary to have its counsel or legal officer draw the will, no charge being made for the safe-keeping of the document during the life of the testator. Laymen should be dissuaded from drawing their own wills, and urged always to secure legal advice so that errors may be rectified before it is too late. If the will is not already in the possession of the executor named in the document, it should be delivered to the corporation or individual so designated, or to the proper officer of the probate court, immediately on the death of the testator. Wills are often left in safe deposit boxes or in the hands of counsel. If a decedent or a decedent's family is represented by a lawyer who brings the business to a trust company, it is usual for

¹ See p. 10.

the company to retain him as counsel for the estate. When the testator's personal counsel has drawn the will, his knowledge of the testator's private affairs is likely to prove of value in administering the estate. The first duty of the company when named as executor is to have the will probated. The document is deposited with the register of wills, or officer of a court having jurisdiction in the matter of decedents' estates, known in different states as the probate, surrogate's, or orphans' court. After the will is proved, letters testamentary, constituting the executor's authority to act, are granted and the appointment is advertised, debtors to the estate being notified that payment is due, and all persons who have claims against the estate being called upon to present them to the executor. Trust companies are not usually required to give bonds to secure the faithful performance of their duties whether acting as executor, administrator, or trustee, their capital and surplus being considered a sufficient guarantee. In some places a special deposit of securities is made by these companies with the state authorities as an additional guarantee. One or more individuals are often named as co-executors with a trust company. In such cases the company generally takes charge of the securities, and does most if not all of the detail work, the other executors being consulted in matters of judgment, joining in the execution of documents when necessary, and sharing the commissions. Immediately on securing possession of the decedent's property an inventory is made, and usually an appraisement of the personal property. If the funds are sufficient, the executor settles the debts of the estate as promptly as possible. Some debts are commonly regarded by the law as preferred,—as funeral expenses, bills for physician's services rendered during the decedent's last illness,—and these, where there are sufficient funds, are paid at once. In the case of other debts and claims it is not unusual for the executor to wait until the statutory period has elapsed during which claims may be presented, in order that all possible claimants may be protected. When necessary the executor sells securities or other personal property in order to obtain the requisite cash. Inheritance, income and other taxes are paid as promptly as practicable to secure the advantage of any discounts allowable and to avoid the penalties imposed for delay. The payment of legacies follows, in

conformity with the provisions of the will. To be properly protected the executor should, as a rule, defer the payment of legacies until such time as an account may be filed and adjudicated by the proper court. Certificates of the appointment of the executor, obtained from the proper official or probate court, are used as evidence of authority to perform all acts necessary in the settlement of the estate. At the proper time, usually one year after the will is proved, the executor files an account for audit by the probate court. After audit the adjudication of the court is set forth in a decree passing upon the acts performed and directing such further acts as may be necessary on the part of the executor. The executor may account once or more often, according to the nature of the estate and the requirements of the beneficiaries and creditors. After settlement of the final account the executor, upon distribution of the balances remaining in his hands and payment of the court costs, is discharged and relieved from further responsibility.

The formal duties of an administrator are almost identical with those of an executor. The power of appointment vests in the register of wills or official of the court having jurisdiction in the matter, in a manner which is usually prescribed by statute. When an individual dies intestate, or leaves a will in which no executor is named, or when an executor declines to act, or dies before completing his duties as such, an administrator is appointed to settle the estate. If there is a will, the property is divided according to its provisions; otherwise the order of inheritance is fixed by the intestate laws of the state, succession being based on relationship to the decedent, the wife and children having first right to the estate. The statutes of the various states differ in minor particulars, but the general procedure in administering estates is very similar. After appointment the administrator qualifies, and, if an individual, gives a bond for the faithful performance of his duties. The administrator at once takes charge of the estate, and proceeds to administer it as in the case of an executorship, calling by advertisement for the presentation of claims, filing an inventory and appraisal, selling securities when necessary, paying debts, taxes, and legacies, and accounting to the court. The final distribution of the estate follows, with the dis-

charge of the administrator on the satisfactory completion of his duties.

Appointment as trustee originates in various ways. When trusts are made under a will, the property is received from the executor on the settlement of the estate, and is held in accordance with the terms of the will for such purposes as it designates. The same corporation or individual is frequently, though not necessarily, named as executor and testamentary trustee, and in this case the property is first held in the former capacity and vests in the trustee on settlement of his account as executor. "The precise moment when his duties as an executor come to an end, and his duties as a trustee begin, is hard to ascertain. . . . The late Sir John Wickens, a very nice observer, used to tell his pupils that it invariably took place in the dead hours of the night, but so close an investigation is to be deprecated."¹

When no appointment is made by will, or the trustee named does not or cannot act, and the will makes no provision for appointing a substitute, the court having jurisdiction will usually fill the vacancy on the application of those interested. All trusts under will are subject to the jurisdiction of the proper court, to which accounting is made from time to time during the life of the trust or at all events upon its termination. The title to real estate vests in the trustee directly under the provisions of the will; that to personal property, on its transfer by the executor to the trustee. When there are several trustees, their authority must usually, unless the instrument creating the trust provides otherwise, be exercised jointly, unlike that of co-executors, each one of whom is vested with full powers and is competent to act independently. Individual trustees appointed by the courts must, as a rule, give bonds, which are not required of corporate trustees. The two interests in the trust estate are those of the trustee in whom the title to the property vests, and of the beneficiary for whom the trust is created, and who can compel the trustee to carry out its provisions.

When appointment is made by deed, the trustee is governed by the terms of the agreement between the maker of the trust and itself. Such trust deeds may have all sorts of objects — from the wish to

¹ "The Duties and Liabilities of Trustees," Augustine Birrell, p. 13.

be relieved of responsibility in the care of property, to the making of a marriage settlement, or the setting aside of funds for charity or for support of those incompetent to manage their own affairs. Trusts under deed may be irrevocable or may contain a clause making them subject to amendment or termination at pleasure. They may be made for definite periods or to terminate on the occurrence of some event such as the death of a beneficiary. In the United States, except in the case of trusts for charities, trusts in perpetuity are prohibited by law. The "Community Trust" is a form of charitable trust, developed first in Cleveland, Ohio, under which gifts and bequests for public purposes are received and administered by a trust company in connection with an advisory board of citizens.¹

The liabilities of a guardian are very similar to those assumed in the exercise of the powers already described. A trust company may be guardian of the person or estate of the minor, or of both. The guardian may be appointed by will, by deed, or by the court. The guardianship terminates on the ward's becoming of age. The principal duties of a guardian of the estate are to make an inventory of the property of the ward, make investments according to law, keep accurate records of all receipts and disbursements,—if necessary obtaining instructions from the court as to the provision it shall make for the education and support of the minor,—and on the latter's coming of age to render a final account for audit and approval, and to deliver the ward's estate in accordance with the decree of court.

The offices of curator, committee, and conservator are much like that of guardian. The life of the trust varies according to the circumstances of each case. Thus a trust for a person of unsound mind ends on the beneficiary's regaining his reason.

When the trust company acts as agent and attorney, the title to the property held or managed does not vest in it as in a trustee. Its appointment is derived from a simple request or agreement to perform certain definite acts. This authority, which can be revoked at any time, may be in the form of a letter or a general or special power of attorney. Under a general power of attorney, authority is given

¹ See "Trust Company Law," by John H. Sears, "Community Trusts," p. 427 *et seq.* "Community Trusts," by F. H. Goff, Proceedings Trust Company Section, American Bankers' Association, 1919. "The Modernization of Charity," by William P. Gest, Fidelity Trust Co., Philadelphia, 1920.

to manage real estate, collect rents and other income and principal moneys, buy and sell securities, indorse checks, vote at meetings of corporations, sue and be sued—in short, to act generally on behalf of the principal or person represented. A special power is limited to a particular act or acts. If the power of attorney is to be recorded,—as a power to sell real estate or to satisfy a mortgage,—or if certified copies are likely to be needed, it must be properly acknowledged in accordance with the requirements of the recording statutes.

As assignee a trust company usually acts under appointment made by a debtor who by such action relinquishes the title to his property for the benefit of his creditors. The authority to act as receiver is derived from the debtor, or the court to which application has been made by a debtor or by creditors because of an embarrassed condition of the debtor's affairs. In both cases the duty of the trust company is to take charge of and manage the property in the interest of the creditors; in the case of a business it must carry it on until its difficulties are tided over, or else wind up its affairs.

An escrow may be defined as an instrument under seal placed in the hands of a third person, to be delivered to the grantee upon the happening of certain conditions, upon which final delivery only the transmission of title is complete. As custodian or depositary the trust company accepts escrows, taking its authority in the form of written instructions in which all the parties in interest join. No responsibility is assumed beyond the care of the deed or instrument held, and its delivery in accordance with the instructions received.

CARE OF STOCKS AND BONDS

Upon the trust officer devolves the charge of all securities taken for trust accounts. For every item received he, or an assistant to whom he has delegated sufficient authority, should give a receipt describing both the security and the terms under which it is to be held.

When the title to stocks and registered bonds vests in the trust company in some fiduciary capacity, they should be promptly transferred, if this has not been done before they are received. Some-

times the securities of an estate have been allowed to remain in the name of deceased relatives or other persons from whom they have been received or inherited, and if the legal representatives of the original owner have also died, transfers cannot be made until new letters of administration have been taken out. All such tangles should be straightened out while the facts of the case are fresh, and before there can be any danger of loss through inability to make a transfer.

The record of individual trusts should give the exact wording to be used in registration, and care should be taken that all securities of the same estate are registered alike. After all necessary transfers have been made, and the stocks and bonds have been properly entered in the record of trust securities received and the record of individual trusts, they are ready to be indexed and put away in the vault.

The question of the care of, and access to, trust securities is one which confronts the management of every trust company and has been solved in many ways, from the extreme of carelessness where no one is responsible and the keys are freely handed about, to the extreme of caution thus impressively stated: "The securities of each trust are kept separately in safe deposit boxes to which access may be had only by an assistant secretary accompanied by a vice-president, or by two vice-presidents, and no securities may be taken from the boxes except on a requisition of the trust department approved by a vice-president." The ideal is to get the greatest possible degree of safety with the least possible amount of red tape. The client likes to know that his securities are absolutely safe, but he also likes to know that they can be quickly found and taken out when needed, and if he realizes that both the capital and surplus of the company are liable for loss occasioned by the negligence of its employees, he will be quite as much impressed by simple and accurate methods as by a ponderous system which breaks down in an emergency.

In a small business where other safeguards are not practicable, joint access to the securities by two officers is usually advisable; but whenever the size of the company will warrant it, one officer should be put in charge of the trust securities, and be held personally responsible for their receipt, care, and disposition. He should be subordinate to the head of the trust department and should be appointed only after his fitness has been thoroughly proved.

Independent records kept in the trust department form the basis for examination of his work. An adequate salary paid to such an officer removes a fruitful source of temptation and is money well invested. The sum for which he is bonded in a surety company, although probably insignificant compared with the total value of the securities in his care, should approximate the amount which he could readily dispose of in case of dishonesty. This officer should have no authority to execute transfers of securities on behalf of the company, examinations should be made at frequent intervals and without notice, and in his absence or disability his duties should devolve on a fellow-officer designated for the purpose. The board of directors should decide to which officers or other employees he may deliver securities, and in no case should he be permitted to make deliveries to any other individuals, whether in the employ of the company or not, unless so directed in writing by one of those authorized to make such requisition. The giving and taking of receipts should, without exception, be insisted on. This officer can take charge of cutting and collecting coupons, and can also watch for bond calls, and keep in touch with the values of the securities which pass through his hands. The position is one of great responsibility and of considerable interest, for although it does not bring the holder into relation with the outside public, it gives him a knowledge of securities and forms an excellent basis for future advancement. Even in a trust company, somebody must finally be trusted, and whether the business be large or small, the directors should see to it that an adequate and adaptable system is introduced, embodying the separation of the care of records and securities and the principle of personal responsibility.

In the absence of the officer in charge of the trust securities, joint access should be required on the part of two other officers, one of whom keeps a record of the securities which are removed in his presence, while the other takes a receipt on their delivery. Later the officer responsible for the vault compares the receipts with the list. He holds a master key to the vault, while the two officers who act in his absence hold keys which must both be used to open the lock, thus preventing access by either one alone.

INDEX OF SECURITIES

A complete record of all securities held for trust accounts is kept in a card index. The main divisions of the index are: coupon bonds, stocks, registered loans, and miscellaneous securities. Under these divisions blue cards describing the security are arranged alphabetically, and behind each blue card is a series of white cards show-

J & J			
DIVIDENDS	PAYABLE	PAR VALUE	PLAT
INTEREST			BOOK
TOTAL SHARES		OF SHARES	EACH
TOTAL BONDS\$			
PRINCIPAL DUE			
PRINCIPAL			
REDEEMABLE			
○			
PATENTED MAY 25, 1897			
LIBRARY BUREAU			

INDEX OF SECURITIES — BLUE CARD

ing the separate holdings arranged alphabetically as to the name of the trust.

The blue cards have projecting tabs which are cut in eight positions to show the various interest and dividend periods. Commencing at the left they are as follows: —

"J. & J." for January and July

"F. & A." for February and August

"M. & S." for March and September

"A. & O." for April and October

"M. & N." for May and November

"J. & D." for June and December

"Irreg." for Irregular

Blank for non-interest and non-dividend-paying securities

When coupons, interest, or dividends are payable quarterly, two blue cards are used. The card with a tab showing the earliest calendar

instead of four, would double the capacity of the card. The white cards show the number of shares held by each trust.

With registered bonds, the title of the security, the interest periods, date of maturity, provisions as to redemption, and total amount held, are noted on the blue card as in the case of coupon bonds. On the back of the card the date and rate of interest payments are shown, and the method of their collection, exactly as in the record of stock dividends. The white cards give the par value of each estate's holding.

The miscellaneous securities section is an exception to the others

Withdrawn from the vault					
Date	Shares	Bonds	Description	Par Value	
Trust No			Received by		

in that it is arranged alphabetically according to the name of the account. The white cards only are used, headed by the number and name of the trust, while the rest of the card is given up to a description of the various items. Among these will be found notes, due bills, judgments, life insurance policies, jewelry, membership certificates, deeds for pews, and a miscellaneous assortment of evidences of past, present, or future value, which cannot be classified in any other way.

Securities of no value are recorded on buff cards of the same ruling as the white cards. The worthless securities themselves can for convenience be kept separately, so as to save time and labor at audits and in the transaction of current business. The record should,

however, be kept in its proper place in the index, irrespective of the question of value. The color of the card at once indicates both the location and the character of the security.

Whenever a security is withdrawn from the vault, a receipt is taken. The receipt card shows the purpose for which withdrawn, the date, description and par value of the security, the number and name of the account to which it belongs, and the signature of the person to whom it was delivered. These cards are filed together in the index case, alphabetically, according to the title of the security. When all the securities of an account or a large number of them are withdrawn, it may, however, be easier to put several items on one card, and these receipts may be arranged according to the names of the trusts, in front of the others in the receipt index. At the time the receipt card is placed in the index, the card representing the holding of the account from which the securities have been taken is marked "out." If only part of the holding has been withdrawn, the amount taken is also noted in pencil. Thus the general index shows at all times what securities, for which the company is still liable, are in process of sale or for other reasons are out of the vault. When securities which have been withdrawn temporarily are returned, the receipt card is destroyed and the word "out" is erased from the index card. These appear as "returns" in the record of trust securities received. When securities have been sold or delivered, and the proper entries have been made in the trust ledger, the receipt card and the corresponding card in the securities index are destroyed, or if only part of the holding has been disposed of, the amount is deducted and the balance shown on the security card. The securities delivered book is the authority for these entries.¹

A maturity index is also kept, in which cards bearing the title and date of maturity of each bond issue are arranged chronologically. At the front of the index are cards representing overdue securities, then the securities falling due during the next twelve months, separated by guide cards. As each month passes, the guide card is moved back to the corresponding month of the following year. In this way the securities falling due at any time within a year are easily found. The total holdings of all securities maturing within

¹ See p. 339.

six months are shown on the maturity index, so that new investments may be secured in good time or extension provisions be taken advantage of. The individual holdings are found by reference to the index of securities.

ARRANGEMENT OF SECURITIES IN VAULT

Many companies keep the securities of each estate in separate locked safe deposit boxes, or in boxes or envelopes in a special vault. An equally safe but less cumbersome system is based on the plan of keeping all securities flat in portfolios, and the holdings of each trust account distinctly marked with its number and name. The stocks, registered loans, and miscellaneous items belonging to each trust are kept together, as all the securities of one trust are more often wanted than are all the holdings of one security. The coupon bonds, on the other hand, are arranged primarily as to interest periods, and then as to security and trust account, because all the holdings of each issue have to be taken out at least twice a year for the purpose of cutting coupons.

The stocks, miscellaneous securities, and registered loans are kept in portfolios made of two sheets of tar board, each $12\frac{1}{2}" \times 19"$. The estates are arranged in numerical order, each one separated from the next by a loose manila sheet $12" \times 18\frac{1}{2}"$, at the lower right-hand corner of which is the number and name of the account. The registration of stocks and loans shows the ownership of each security, and in addition the trust number is written in ink in the upper right-hand corner of each certificate. In each account, each class of securities is arranged alphabetically, first stocks, then miscellaneous securities, then registered bonds. One portfolio usually holds a number of trusts, although a very large estate may need several portfolios. The portfolios are held together by loose straps of webbing with ordinary buckles. So as to be readily accessible, they are kept on separate steel shelves $2\frac{3}{4}"$ apart. A label on the outside of the closet door gives the numbers of the trusts within, and on the inside of the door is another label showing the numbers of the trust accounts contained in each portfolio.

Securities of no value are kept in a separate set of portfolios,

the arrangement being identical with that just described except that worthless coupon bonds are kept with the other "bad" securities. As apparently worthless securities occasionally develop unexpected value, it is necessary to preserve the certificates, and keep accurate records of them. For instance, a few years ago when the electric railway was introduced, many worthless turnpike stocks became suddenly valuable because the electric railway companies, not possessing the right of eminent domain like the railroads, were obliged in many instances to purchase from the turnpike companies the rights of way still owned by these old corporations.

The arrangement of the coupon bonds in the vault is first as to interest periods. On account of the different sizes of shelf and portfolio that are needed, each interest period is subdivided into flat and book bonds. Under these subdivisions the bonds are arranged alphabetically by the name of the security. Flat bonds have bond and coupons printed or engraved on the same large sheet. In book bonds the bond and the coupons are on separate smaller sheets bound together.

All coupon bonds are spread out in portfolios of loose tar boards with manila sheets to separate the various issues. For flat bonds the tar boards are 19"×28" and the manila sheets 18"×27". The portfolios are large, and it is convenient to have holes punched at one edge of the tar boards and manila sheets, and the sheets eyeleted, so that a tape or cord may be used as a back to hold the papers in position when the leaves are turned. Straps of webbing hold each portfolio together. Each manila sheet is numbered consecutively, and on the outside of the portfolio is pasted an alphabetical list of the securities, showing the number of the sheet on which the bonds will be found. All the coupon bonds of the same issue are together and are arranged in order of trust numbers, the estate with the lowest number being on the top of the pile. As no writing is allowed on coupon bonds, the ownership is indicated by a small label gummed at the upper edge and attached to one corner of the back of the bond. The label gives the name of the security, number of bonds, par value, interest period, and number and name of the trust. If a trust account owns more than one bond of a kind, the label is attached to the uppermost bond, and the others have the number of the trust

pencilled at the same point on the margin. Each bond is recorded by its number in the record of individual trusts, and thus a perfect system of identification of ownership is established. Book coupon bonds are cared for exactly like the flat bonds, except that the size of the tar boards is $10\frac{1}{2}" \times 15\frac{1}{2}"$, and of the manila sheets $10" \times 14\frac{1}{2}"$. To make the portfolios of uniform shape, the bonds are piled, some with their bindings turned to one end of the portfolio and some to the other. Owing to the size and weight of the portfolios, each one

COUPON BOND LABEL

TRUST No.	\$
BONDS OF	
JANUARY & JULY	
OWNER	

should be kept on a roller shelf. The shelves should be $4\frac{1}{2}"$ apart for flat portfolios and $6"$ apart for the book portfolios. On the outside of each closet door is a label showing the interest period of the bonds, and whether flat or book. Inside the door, a label gives the alphabetical divisions contained in each portfolio. As a help in finding coupon bonds it may be convenient to keep in the vault a small card index arranged alphabetically under the names of the securities, showing to which interest periods they belong and whether they are flat or book bonds.

The arrangement which has been described, although a departure from the traditional method, has been proved by experience to be thoroughly satisfactory. The portfolios lend themselves readily to expansion or contraction, and even when readjustments have to be made, owing to the receipt of large numbers of new securities or the delivery of old ones, the process is a simple one. No more space is needed, sometimes even less, than under the old-fashioned systems. A security is always quickly and easily found because there is only one place in the vault where it can belong, and the papers are kept in far better condition than when folded. In the cutting of coupons alone, an immense amount of time and trouble is saved if the bonds

do not have to be unfolded or unrolled. Examination of assets is also greatly facilitated. The system can be adapted to the needs of the smallest as well as of the largest company.

COLLECTION OF INTEREST AND DIVIDENDS

The index of securities is the record from which data are procured for the collection and credit of interest receipts.

Coupons are promises to pay to the bearer on a given date a specified sum representing the amount of interest then due on the bonds to which they are attached. Coupon bonds can generally be registered as to principal if the owner so desires, and occasionally the coupons are payable only to the order of the registered owner of the bond.

As a preliminary to the cutting of coupons, a coupon collection list is each month made up from the index of coupon bonds. Using the tabs of the blue cards as a guide, an alphabetical list is prepared of the name and total holding of each security whose coupons will fall due at the next interest period. On the same sheet, spaces are provided in which to record the number of coupons, amount of each, deductions for taxes, net amount, where and when payable, date of payment, and remarks. The list is turned over to the person whose duty it is to cut the coupons, and all the other entries, excepting the date of payment, are made as the coupons are cut. In cutting coupons, the fewer who take part the better, and if the officer in charge of the vault cuts them all himself, the necessity of verifying the securities as they are returned to the vault is obviated and there is also less danger of coupons being mutilated and payment refused. A steel coupon cutter is used, having two sides at right angles, each about $4\frac{1}{2}$ " long and $1\frac{1}{4}$ " wide. At the point of the right angle is a raised knob by which the cutter is firmly held in the left hand, its inside sharpened edges at the outer margin of the coupon, while the coupon is detached by a quick pull of the right hand. Only one coupon should be cut at a time, as bonds are not always evenly trimmed, and coupons of the same date may not lie exactly under each other. As soon as the coupons are cut, they are counted and bundled in packages of not more than one hundred each, and the number is

[illegible]

written in pencil on each package. They are then placed together with the proper income tax slips, in envelopes on which are indorsed the name, number and amount of the coupons, the date and place of payment, and the name of the depositing trust company. About ten days before the maturity of the coupons they are deposited in bank for collection. The collecting agency may be the banking department of the trust company, or another bank. According to local usage, the envelopes may be passed through the collecting agency either sealed or open.

For coupons payable at local offices and collected by messengers, linen-lined envelopes $3\frac{1}{2}'' \times 6\frac{1}{4}''$ can be used again and again. In this case the title, interest period, and place of payment are written in ink, the number, value of each coupon, and total amount are shown in pencil, so that the figures can be changed at successive interest periods.

At the same time that the coupon collection sheet is prepared, credit slips are written up from the index of coupon bonds. These give the title of the security at the top of the slip and below an alphabetical list of estates, the par value of each holding, and the amount of the coupons due to each. A convenient size for such a credit slip is $6'' \times 12''$. As the slips can be corrected and used at successive interest periods, space should be left for new accounts.

The totals of each credit slip must correspond with the par value of principal and net amount of the coupons as shown by the corresponding item of the collection sheet.

As each item is reported paid, the date of payment is recorded on the collection sheet, the cash or due bill received from the banking department is handed to the trust department receiving teller, and he passes the credit slip to the bookkeepers in order to distribute the proceeds of the coupons to the proper accounts. As a matter of convenience it is well to have a coupon credit book ruled in the same way as the credit slips, and to show in it the total amount credited, referring to the slips for the individual items. When a single item is credited, or when credits are made at regular times, the details can be written in the credit book itself without the use of a slip.

When coupon bonds fall due or are called for payment, this fact is noted on both the collection sheet and credit slip, the amounts

of principal and interest being shown separately. The bonds are collected with the coupons. If they are registered as to principal, the necessary power of attorney transferring them to bearer is attached.

Redemption provisions are noted on the security index and should be examined at each interest period. Issues of bonds subject to redemption must be carefully kept track of, for there is constant danger of missing a call and learning only through the return of the current coupons that the bond was drawn for payment, and interest ceased six months before. The financial papers should be watched for advertisements of calls, and letters should be written to obtain information which cannot be otherwise secured. It is also wise to have small printed slips which can be put with the coupons, asking that notice be sent if any bonds of the issue have been called.

In the collection of interest on registered loans, the index of securities provides data for filling out a collection sheet with the title of the security, amount of principal, rate of interest, gross amount, deductions for tax, and net amount. Columns follow showing where, how, and when payable, date paid, and other remarks.

In most cases registered interest checks are received by mail. The remainder are collected by messenger or by the deposit of interest orders through bank. Credit slips and a credit book are used, and the paid items are treated exactly as in the case of coupons. Registered bonds due or called for payment must always be accompanied by the proper power of attorney. When registered loans are called for payment, notice is sometimes sent directly to the owner, which of course cannot be done in the case of bearer securities.

The collection of dividends is like that of registered interest. The collection sheet shows the name of the stock, total shares held, rate paid, total amount, deductions for tax, and net amount; where, how, and when payable, date paid, and other remarks. The credit slips show the number of shares held by each estate, the rate and net amount of the dividends. Irregular and non-dividend-paying stocks must be carefully watched in order not to overlook dividend payments. The date and rate of each dividend are recorded on the back of the description card in the security index.

Notes and other items not falling into the general classes already

described are collected by the same methods as registered securities. Each item has to be treated separately, however, and in the case of notes it may be necessary to have them protested if not paid. Either separate books or the same credit book can be used for coupons, interest on registered loans, dividends, notes, etc.

When coupons are returned unpaid, they are attached to the bonds. A record of all coupons and registered interest in default is kept and, when necessary, steps are taken to protect the owners.

CARE OF MORTGAGES

First mortgage loans on improved city real estate with ample margin are among the safest investments that a trust company can secure. It is, however, necessary to ascertain in every case not only the value of the real estate, but its freedom from encumbrances and the validity of the title. Compensation for the time and labor involved in negotiating a mortgage loan is found in the fact that the rate of interest is likely to be higher than that yielded by other equally secure investments.

The first step before investing in a bond and mortgage upon real estate is to obtain a full knowledge of the property which is to secure the loan. It is usual to require the applicant to fill out a printed form giving details as to the amount of the loan desired, the period for which it is to run and the rate of interest, the name of the maker of the mortgage, the location of the property, its size and the improvements on it, the value of both ground and improvements, the rental value, and the amount for which the property is assessed for taxation. Other questions cover encumbrances which might affect the title, such as municipal improvements in the neighborhood and already existing liens.

To verify this information, the property is examined by the trust company's experts, and their reports, based on personal inspection and knowledge of real estate values, serve as a guide in the final acceptance or rejection of the mortgage.

The appraisal of real estate has, in some trust companies which specialize in mortgage loans, become a matter of such importance that special facilities have been developed in order to keep in touch

with real estate values in widely separated localities where loans are made. Statistical information, covering population, industry and commerce as well as more specific facts in regard to sales, mortgages, building permits and leases, is secured and kept up to date. Trained experts make personal inspections and check rentals and values against the average experience of similar properties in the same locality and elsewhere. An appraisal not qualified by information in regard to surrounding conditions and future prospects may be of little value or even misleading.

The conclusions of the appraisers are recorded on a form including the following facts:

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Applications may be made for loans to be secured by mortgage to be placed on the owner's unencumbered property, or by a purchase money mortgage, or by an already existing mortgage to be assigned to the company. In every case, the same general procedure is followed in the examination of the title and valuation of the property. When an existing mortgage is purchased, an assignment is made by the mortgagee who is usually required to furnish a certificate of "no defence" or "no set-off" from the mortgagor, admitting the existence of the debt.

In some parts of the United States it is customary to execute a

note for the amount of the loan, often with interest coupons attached, and a trust deed conveying real property as collateral security. The interest coupons and principal note are generally payable at the office of the bank, trust company, or other institution which negotiated the loan. Each change in ownership of the obligation requires the execution of an assignment which is usually placed on record in the county in which the property is located. Mortgage loans of this character are more easily negotiated when the note and the trust deed conveying the property as collateral are issued in the name of a trustee who authenticates the note and keeps possession of the trust deed, attending to all details as in the case of a corporate bond issue. The interest notes or coupons are collected through bank as they mature and are payable at the office of the trustee. On payment of all the interest and principal notes, the borrower obtains from the trustee a release of the property which had been conveyed as collateral security. The exact method in each state varies according to local practice and legal requirements. In making real estate loans, most trust companies use their own standard forms of bond and mortgage, approved by counsel.

On the acceptance of an application for a mortgage loan, the owner of the property or mortgagor executes a proper instrument evidencing his indebtedness and a mortgage covering the real estate as security for the loan. Settlement is made, and at the same time the mortgage is placed on record in the proper office for the recording of deeds. Until satisfied of record, the mortgage remains a lien against the property. A brief of title and counsel's opinion, or the policy of a title insurance company, is usually required. A title insurance company may take charge of drawing the papers, making settlement, and recording the mortgage. When a trust company has a title insurance department, settlements in connection with mortgage loans are made through this department. The borrower pays the conveyancing charges and cost of the title insurance policy.

Mortgages should be taken in the names of the accounts for which they are purchased. A mortgage too large to be taken by a single account, may be made to the trust company as trustee, to secure an issue of bonds, either registered or coupon, which are allotted to the various accounts for which the investment is made. Or both

bond and mortgage may be executed in the name of the trust company as trustee, and the company may issue its declarations of trust specifying the proportion of the loan to which each account is entitled. Some companies are content to take such mortgages in their own name as trustee, simply showing by a distribution in the mortgage ledger the amounts of principal and interest belonging to the various accounts for which the mortgage is held.

If part of the mortgage loan is secured by improvements upon the real estate, it is customary to require the maker of the mortgage to carry sufficient fire insurance to cover the amount so secured. The policies are generally made payable to the mortgagee, as his interest may appear in case of loss.

Unpaid taxes being generally a prior lien against real estate, it is necessary to know that all taxes are regularly paid. A clause in the mortgage generally provides that receipted tax bills shall be exhibited annually.

Bills for interest are sent at regular periods and receipts are given covering each payment. When mortgage loans mature, if not paid off they may be allowed to run on as demand loans, payable at the pleasure of either borrower or lender, or they may be extended for a definite or indefinite period, according to special agreement. Many mortgage loans are allowed to run on after maturity, and agreements as to rate of interest and payments on account of principal are entered into according to the exigencies of the case.

All payments on account of principal should be endorsed on the bond or note, so that it shall at all times agree with the books of record. After the final payment is made, the mortgage is satisfied of record, it being customary for the satisfaction fee to be paid by the mortgagor.

In case of non-payment of interest or principal, or failure to comply with any other provision of the mortgage, the papers are placed in the hands of counsel, and suit is entered to foreclose the mortgage. The company which is too liberal in the amounts of its loans is likely, in times of depression, to find many foreclosure suits on its hands and to be forced to take title to properties which have to be held indefinitely before they can be disposed of.

Mortgage papers are matters of public record, and therefore their

care does not require quite so many precautions against loss as do stocks and bonds not of public record. They should be kept in a vault if possible, or at least in locked metal cases. Each mortgage should be placed in a separate box or collapsible envelope, and should be filed according to the number of the account to which it belongs. If pasteboard boxes are used, they should open at the end, in the form of a slide fitting into a cover, and have the number of the account written on the exposed end of the box. The boxes should be arranged on shelves. If envelopes are used, they should be placed upright in files — preferably metal files. On each envelope the number of the account and of the mortgage is indorsed, and on the outside of the file the numbers of the accounts included in it. Mortgages may also be kept in a vertical file or in portfolios.

The mortgage ledger is the volume in which a complete record of each mortgage loan is kept. Either a loose-leaf book or cards can conveniently be used. Each mortgage has a separate page or card. At the top is shown the number and name of the trust account which holds the investment, followed by a description of the mortgage. This includes the name and address of the interest payer, the name of the mortgagor, a description of the property and improvements including valuations, the date of maturity, the interest rate and periods, by whom the state tax, if any, is paid, and the date and place of record of the mortgage. This description can be much elaborated, but a concise abstract of the salient facts is enough. A short section follows in which cash principal transactions are recorded. The columns are for the date, amount paid, balance, date, and amount received. The lower part of the front and the entire back of the sheet or card are devoted to interest payments. Two columns show the date and amount of interest accrued; two, the date and amount of the payments; and a column headed "Tax receipts shown for" provides space for entering the year of the paid tax bills which have been submitted for inspection.

In places where county, city, borough, school, road, or other local taxes are paid to different collectors, and all, when unpaid, are liens against the property, it may be necessary to have a column for each tax. The interest columns take but half the width of a page, and are repeated so as to save space and provide for enough entries to cover

the life of most mortgage loans. When a loose-leaf ledger is used, the sheets are sorted according to interest periods, and each period is arranged alphabetically by the names of interest payers. A card ledger, with projecting tabs to show the months in which the interest payments fall due, makes it possible to file all the cards alphabetically under the names of the interest payers, and saves having a separate index for this purpose, while the tabs serve as an index to interest periods.

Sheets or cards containing closed accounts are placed in a transfer binder or separate index, so that only live accounts appear in the active ledger. Closed accounts are filed by the names of the interest payers.

When settlement is to be made for a mortgage, a charge slip is filled out, authorizing the teller to issue a check in payment. This slip becomes a voucher in his settlement. It bears the date, number, and name of the account charged, the name of the mortgagor, amount paid, location of the property, name and address of the interest payer, and the signature of the proper officer. It also bears the following memoranda: posted in individual trust ledger; posted in mortgage ledger; entered in general cash book; entered in record of securities received. As each of these postings is made, the bookkeeper initials the slip. These mortgage charge slips should correspond in size with all other charge and credit slips used.

Bills and credit slips representing principal and interest receipts are written up by the mortgage bookkeeper from the ledger in advance. Both bills and credit slips contain the same information, and by using a carbon sheet they can be made out together. The bills should fit one of the company's standard envelopes without folding, and bear a notice that the bill must be presented at the trust department receiving tellers' window when payment is made. A statement of the necessity for prompt payment may be added.

The credit slips are turned over to the receiving teller and are arranged by due dates and, under each date, according to the names of the payers. When the bill is presented for payment, the corresponding credit slip is removed from the teller's index, and after verification the bill is receipted and the credit slip is stamped paid.

The slip then serves as a voucher and the source from which the later entries are made.

When the loan is represented by a note with coupons attached, no bills are sent but instead the coupons are cut and forwarded for collection. The credit slips are, however, made out and used in the same way.

Principal and interest receipts are distinguished by different colors of paper or ink. The bill and credit slip for principal items show the name and address of the payer, date due, location of property, amount of payment, number and name of trust account, and posting memoranda covering the individual trust ledger, mortgage ledger, general cash book, and record of securities delivered.

The bill and credit slip for interest specify the name and address of the payer, the period covered by the payment, the date on which it falls due, its amount, the location of the mortgaged property, and the number and name of the trust account. The posting memoranda cover the individual trust ledger and mortgage ledger. The separate items of interest receipts are not extended in the general cash book, only the total, as shown by the teller's settlement, being posted there.

A scratcher is used by the mortgage bookkeeper in which all receipts, both principal and income, are listed. The book is ruled to show the date and name of payer with two columns for principal and interest respectively. The mortgage bookkeeper's totals settle with those of the teller. All postings are made from the credit slips direct. Each day's work should, however, be checked back from the scratcher to the mortgage ledger to verify the entries.

In addition to the books of record, it is well to have an index of mortgagors combined with a cross index of interest payers on different colored cards filed together alphabetically by names. The mortgagor cards give the name of the mortgagor, location of the property, name of the interest payer and the interest periods. On the payer's cards are the payer's name and address, followed by the location of the property, the name of the mortgagor, and the interest periods. If the mortgage ledger is kept on cards under the names of payers, this cross index of payers is not needed.

A location index is useful in finding mortgages when the names are not known and in showing the number of mortgage loans in each locality. It is arranged primarily as to states and is subdivided according to counties, towns, and streets. The same information is given as in the index of mortgagors, but with the location of the property on the top line.

An index showing the maturity of each mortgage loan is also kept. It contains the same information as the indexes already described. By reference to the maturity index the question of demanding payment or executing an extension agreement is brought up for decision, bills for principal payments are sent at the proper time, and overdue items are kept track of. Columns to be initialled in the record of trust securities received and record of trust securities delivered insure the making of entries in the indexes.

Records of fire insurance policies held as collateral security with mortgages can be kept in the mortgage ledger, supplemented by an insurance expiration index, or if the mortgage business is large, separate insurance records may be necessary. The policies can be kept with the mortgage papers if the business is small; in larger companies a separate arrangement is preferable.¹

The ground rent which is found in Pennsylvania is "a rent reserved to himself and his heirs by the grantor of land in fee simple, out of the land conveyed." It is considered as real estate. The making of irredeemable ground rents is no longer permitted in Pennsylvania. The Pennsylvania Act of June 24, 1885, provides that thereafter "no irredeemable or non-extinguishable ground rent shall be charged upon or be reserved out of or for any land within" that commonwealth, and that the period for the extinguishment of any such rent shall not be postponed "longer than twenty-one years, or a life or lives in being."

The ground-rent system in force in Maryland "differs from that of Pennsylvania in that the term is used to designate the rent reserved upon lease for ninety-nine years, renewable forever."

The bookkeeping for ground rents is practically the same as for mortgages, and may be done in the same department.

¹ See p. 337.

CARE OF REAL ESTATE

In a company which controls a small number of properties, the care of real estate may be combined with that of personal property, only the system of records being kept distinct. With increase in business comes the establishment of a real estate department, sometimes entirely separate from the rest of the individual trust department. However distinct its organization may be, the real estate department should nevertheless be considered a division of the individual trust department and be in charge of a real estate officer responsible to the trust officer.

The real estate officer should be an expert in land values. His position is no sinecure, for he represents the owner, who usually is anxious for larger returns on his investment, while the tenants clamor for repairs, improvements, and reduction of rent, and cannot be ignored if the company's good name as landlord is to be preserved. It would seem that no real estate officer can hope to be popular with all those with whom he has to deal, but a reputation for being just is at least within his reach. He should be supported by an office force adequate to care for the many details connected with managing real estate. Nothing does more to make a satisfied tenant than the knowledge that his requests will receive prompt and considerate attention. If many of the tenants are foreigners, it is advantageous to have some employees who can speak to them in their own languages.

Real estate for which the company acts as agent is managed according to the directions of the owners. When acting as a trustee, the company is governed by the nature of its appointment and authority. The law of real estate, as distinct from that of personal property, is a large field where much special knowledge is required. When the power of sale is not specifically given in the will or deed, the executor or trustee can sell, if at all, only with the approval of the court.

It is the duty of the real estate department to pay taxes and keep improved properties insured, rented, and in good order; to preserve unimproved properties intact and prevent trespass. As soon as a property is placed in the hands of the trust company, notice of its

appointment is given the tenants and an examination is made, of which a full record is kept. If leases are assigned to the trust company, an abstract of each one should be entered in the real estate ledger. It should be ascertained at once what charges lie against the premises,—interest, taxes, municipal or other claims,—in order that proper provision may be made for their payment. If the assessment of taxes is excessive, appropriate steps should be taken to obtain a reduction. Taxes should be paid as the circumstances of the estate will allow, so as to take the best advantage of possible discounts and escape penalties for non-payment. If the improvements are already insured, the policies should be examined to determine the standing of the companies, whether the amount carried is adequate, and whether the papers are in proper form. If the property is uninsured or the amount is insufficient, new policies should be promptly taken out.

When properties are vacant, it is not enough to hang out a "To rent" sign and wait until chance brings along a customer. Many methods are now used for coming in touch with prospective tenants, and the offerings of the real estate department are often more widely advertised than any other branch of the company's business. Lists describing all properties for sale and rent should be printed at frequent intervals. All inquiries should be promptly answered, and followed up when advisable. Newspaper advertising can also be made effective.

The trust company's reputation as a landlord may be a potent factor in the success of its real estate business. Improved real estate should always be kept in as good condition as when received. In the long run, it is to the owner's advantage to keep buildings in thorough repair, the actual amount of money spent for maintenance or for improvements depending upon the character of the property and its tenants, and the purposes for which it is used. Slum properties may require a very different policy as to repairs from the better classes of houses. A request coming after the first warm days of spring, to "Please send a blumbber to figs our bath-tup, it soon be time now to use him agen," may well make one hesitate before making elaborate repairs when the bath-tub has probably served as a coal-bin all through the winter months.

All complaints should be promptly investigated, and care should be taken not to allow the property to deteriorate through lack of inspection. Inspectors should have practical knowledge which will enable them to report intelligently on the advisability of making repairs, alterations, or improvements, as well as on the character of the completed work. Except in cases of emergency, competitive bids should be secured, care being taken that the specifications are uniform and that none but trustworthy firms are permitted to estimate. So far as possible, all requests from tenants and all orders for work should be in writing. A written report from the tenant as to the satisfactory completion of minor repairs will often obviate the necessity of an inspection.

Rent bills should be mailed, and tenants should be encouraged to pay by check in the same way. Some, however, prefer to call in person or want receipts in a rent book instead of using loose bills. In the case of small properties, a collector must usually be sent to call for the rent as it becomes due. When properties are not within reach, it is generally necessary to employ sub-agents both to collect rents and attend to repairs.

It is important to keep records to show the income received from each property, the repairs asked for and made, and other pertinent facts. Out of the gross income received, fixed charges such as taxes, assessments, insurance, interest on mortgages, as well as the cost of repairs, must be deducted in order to determine the net return from the property.

Large building operations are often conducted either as agent for the owner or to develop properties held as trustee. In such cases the trust company, if properly protected, may often make large advances greatly to the advantage of the estate and without risk to itself.

The lease forms a contract between landlord and tenant, and governs their actions. It is usually executed in duplicate, one copy being retained by each. Its terms define in detail the rights and duties of both parties. The leases are best filed by the number of the trust account and under each account by the names of the tenants. The trust company must use reasonable diligence in ascertaining whether the tenant complies with the terms of the lease. When properties

are used for unlawful purposes, the landlord may be held responsible. It is well to obtain as much information as possible in regard to the character and responsibility of tenants, before renting, as the process of eviction may be troublesome and costly.

Trust companies are often made trustees for burial lot funds, the principal to be kept intact and the income to be used for the care of the lots. In such cases, the real estate department makes periodical inspections and attends to the maintenance of lots and monuments.

The correspondence of the real estate department is usually large and space and labor can be saved by filing together all letters in regard to each property. Many general letters of only passing value, such as requests for rent lists, may be filed by subjects and so sifted out from the more important correspondence.¹

Title papers, being bulky and of various shapes and sizes, are best kept in heavy expansion envelopes, those belonging to each property in a separate envelope. The envelopes are filed by the numbers of the trusts to which they belong, as in the case of mortgages. Title papers are recorded in accordance with the laws of the state in which the real estate is located. A new deed is prepared, executed, acknowledged, and recorded, with each change of ownership of real estate, except when upon the death of the owner the title to property passes by will or under the intestate laws, or where as in Illinois, New York and some thirteen other states the Torrens system of registration of titles is in optional use.²

¹ See Correspondence or Mail Room, p. 440.

² "Very early in her history South Australia passed a law relating to land for which the other six colonies still owe her a debt of gratitude. The Torrens Land Transfer Act, placed on the statute-book in 1858, sprang from the brain of an intelligent Collector of Customs at Adelaide, who, having seen in early life something of the ways of the English Court of Chancery, had come to hold very strong views about exorbitant legal charges. He thought out a plan by which a system of registered proprietorship should cheapen and simplify future dealings with land. This he submitted to the most eminent local legal authorities, and they threw cold water upon it. Not disheartened, Torrens found less learned advisers who thought better of it. An agitation in its favour was begun, and after a short contest with the legal profession, the laymen won the day. After watching it at work in South Australia, colony after colony adopted the Torrens law with but little change. Now forty years have passed, and the colonial system of land transfer is still in substance the plan hit upon by the ingenious customs officer. Everywhere it works smoothly and usefully. Land registry offices are open in every large district. Any proprietor may apply to register his land in one of these. After proper investigation by the public examiner of titles, his title and the description of his land are inscribed in one of the office ledgers. From that moment he is a registered proprietor, and any innocent purchaser from him has an indefeasible title. Thereafter any person dealing with the land has merely to send an agent to the registry office.

The rent ledger, preferably a loose-leaf book, contains a sheet for each property, or if there are several tenants in any one property, a sheet for each. It is arranged primarily by the number of the trust account, then according to properties and tenants. At the head of each sheet appear the number and name of the trust and the location of the property, then the name of the tenant and the terms of the lease. The tenant's name and facts about the lease take only one line, and it is well to provide at least six lines so that a new sheet need not be made out every time the tenant changes. The cash section is divided into debits and credits. Under debits appear the date, description of the item, and a cash column; under credits, date and a cash column. The sheet is ruled and printed on both sides. The debits and credits fill only half the width of the page and can be repeated. A sheet is inserted in the ledger on receipt of each new property, whether improved or unimproved, rented or vacant. Only live matter is contained in the book. Sheets for properties which have gone out of the company's possession, and sheets which have been replaced by new ones, are filed in a transfer binder.

In the collection of rents there is more opportunity for crooked work than in any other part of a trust company's business. Any one who has access to the rent ledger, or who can hold up a credit slip on its way from the real estate bookkeeper to the individual trust bookkeeper, is in a position to collect and retain rents. The trouble lies in the difficulty of maintaining a rent roll on a double entry basis. The trust company is quite properly unwilling to make itself responsible for rents until they are collected, and the large number of correcting entries for changes in rental, bad debts, etc., which would follow the adoption of a double entry system, makes it almost impracticable. A system of internal checks should be faithfully main-

A memorandum of the transaction—sale, lease, or mortgage—is inscribed on the page of the office ledger devoted to the particular property. A duplicate of the memorandum is handed to the agent, who may or may not be a solicitor, and the business is completed in an hour for a tithe of the cost to a conveyancer's client under the old system. The transfer system's importance is due, in great measure, to its being in part compulsory. All land acquired from the State, after the coming into force of the Transfer Acts, is placed under them as a matter of course. The registration of other private lands is optional, and though the older system is being gradually extinguished, it dies hard."—W. P. Reeves, "State Experiments in Australia and New Zealand," Vol. I, pp. 211-212.

The Torrens System of registration of titles is now in use in all the more important British Colonies, and in the Philippines, Porto Rico, Hawaii and Guam.

[illegible]

tained by abstracting the total credits shown by the rent ledger and comparing them with the amounts which have been credited in the individual trust ledgers. This proves that the items appearing in the rent ledgers have also reached the individual trust ledgers.

The index of properties is arranged alphabetically as to states, counties, cities, and streets, and then numerically as to street numbers. Besides the location, the cards give the number and name of the account to which each property belongs and may also give a full description of the property, a record of the assessment, net return from the property, and amount of insurance carried. The index may, if desired, be separated into two main divisions,—rented and vacant properties.

The index of tenants is arranged alphabetically, shows the name of the tenant, the property rented, and the number and name of the trust account which owns it. The card may also contain an abstract of the lease, and data concerning the tenant.

The maturity index, arranged chronologically, contains the record of maturing leases, the dates on which notice to vacate must be given, and other matters which may require attention.

The data for opening and closing accounts in the rent ledger and indexes are found in the books of securities received and delivered.¹ The record of properties rented and vacated is another book from which entries are made in the ledger and indexes. Like the accession books, it has columns to be initialled when the various entries are made.

The rent bill and credit slip, in general form, are similar to those for mortgage interest.² They bear the name of the tenant, the address to which the bill is sent, the number of the trust account, the property for which the rental is charged, balance due, rent for the current period specified by dates, and the total amount due. When the bills are paid, the procedure is the same as in the case of mortgage interest.³

Among the more important miscellaneous real estate forms are the following: a printed inspection card used by the inspectors at the time of examination, containing spaces for all data which should be on file in regard to the property and its condition; agreement

¹ See p. 338.

² See p. 321.

³ See p. 320.

REAL ESTATE INSPECTION CARD

[FRONT]

(North 1)

(South 1)

(East 1)

.....Street, (West 1) No.....Ward

.....side.....feet.....inches.....ward from the.....side of.....Street

Lot.....feet.....inches front by...feet.....inches deep to.....

Depth of building

.....story.....building.....story back buildings used as.....

Containing.....rooms in all:

1st floor².....

2d floor².....

3d floor².....

Cellar floor; cement, brick, board, dirt. Heater make...size...brick, portable

Range makesize....., boiler; circulating, log.....

Hydrant, Sink, Bath; open, box. Water Closet; siphon, flush, hopper.

Washstands located

Wash-tubs; single, double, triplet, located.....

Drainage; under surface. Roof; tin, slag, slate, shingle, compound.

Pavement; cement, stone, brick, board, dirt.

Gas, Electric Light. Bell; pull, electric. Stairways; open, box.

Rear outlet.....

Adjoining property to North, East

Adjoining property to South, West

Trust No..... Name.....

Date vacated..... Date inspected..... by.....

1 Erase unnecessary words.

2 Beginning with front of house.

[BACK]

Cleanliness,
Ashes,
Rubbish,
Repairs needed:
Paper,

Paint:
Inside,

Outside,

Miscellaneous,

Other vacancies in same square: No.
Agent or owner

Water off
Tenant moved to

of sale; memorandum of settlement, which serves in place of a bill in real estate sales and purchases, and shows the adjustments of rent, taxes, interest, etc., which may enter into these transactions. In a large real estate business many other printed forms may be necessary.

Keys can be kept conveniently in stout manila envelopes of uniform size, filed by the location of the property. When the key is borrowed, a receipt should be taken on the envelope, which is kept by the company.

Repairs are authorized by the officer who rents the properties, subject of course to such limitations as have been imposed by the owner. On receipt of a complaint, the matter is referred to an inspector or a mechanic for examination and report, except in cases of emergency, when the work is at once ordered.

All orders are given in writing on special order forms of which carbon copies are kept. As soon as the work is completed, bills are rendered on forms supplied by the trust company. Separate bills should be made out for the repairs to each property. After inspection of the work, and verification of the bill in connection with the order, a check is mailed, which bears on its face a statement that it is in full payment for work done and materials furnished under the order or orders which are specified by number. Each bill is initialled by the inspector, by the officer who ordered the work, and who approves it for payment, by the payment clerk when the check is issued, and by the bookkeepers who enter the charge in the real estate and individual trust ledgers. The bills, which serve as charge slips also, are retained and filed, and the indorsement of the check takes the place of a receipt. The payment by mail of bills for repairs saves the mechanics or their representatives many unnecessary visits to the office of the trust company.

INSURANCE ON REAL ESTATE

Insurance is carried on improved properties owned by the company itself or held for trust accounts. Policies of insurance are also held as collateral security with mortgage loans on improved real estate. Insurance may cover loss by fire, boiler explosions, torna-

does, burglary, and breakage of plate glass, loss of rent, liability for accidents, and employers' liability.

Where the properties and mortgages owned and controlled are few in number, the insurance policies can be kept and recorded in the departments in which the investments are held. If the amount of insurance carried is sufficient to justify the expenditure, it is well to have all policies cared for by some one with special qualifications for this duty.

On receipt of a property or mortgage, the policies are turned over to the insurance clerk, who makes sure that they are in proper form, that they are written by responsible companies, and that the total amount carried is sufficient. The insurance clerk takes out new policies as the old ones mature, and in case of fire represents the trust company in the settlement of the loss.

A maturity book or index is kept in which is noted the date of expiration of each policy. This book is arranged as a perpetual calendar, with one page for each day in the year. Each policy is entered on the page of the day on which it matures, and the year is written in pencil as the last item of the record. Or the book can be arranged to run for a specified time with a separate space for each day during the period. Maturities can also be satisfactorily recorded on a card index, the cards arranged in chronological order, according to the date of maturity of the policy. The current month is divided by guide cards according to days, the current year by months, and later maturities by years. The maturity book or index shows the number and name of the account for which the policy is held, the property insured, the name of the insurance company, the amount and date of expiration of the policy. It may also show whether the policy covers property owned, or held as collateral with a mortgage loan.

The estate index is arranged alphabetically by the titles of the trust accounts. Each card shows the name and number of the estate, the location of the property insured, the number of the insurance policy, company, amount, and date of expiration. If the policy is held as collateral, the name of the bondsman and amount of the mortgage are also shown.

The location index is arranged alphabetically by states, counties,

etc. The cards show, besides the location, the name and number of the estate, and, if collateral, the name of the bondsman and amount of the mortgage. Then follows an itemized list of all the insurance on the property, giving the name of each company and the amount and expiration of the several policies. A record of the agents of the various companies and the brokers through whom the policies are placed, can also be made on the location cards. When there have been losses by fire, this index is the first to be consulted.

The "line" index, on another set of cards, is arranged alphabetically by companies. Under each company the cards are arranged according to location. The name of the company, location of the insured property, number of the trust account, amount and expiration of the policy, are given. This index keeps the insurance clerk informed of the total risk carried in each company, and the geographical distribution of the insured properties. Each of these three sets of cards should be of a different color from the others, as a matter of convenience in readily distinguishing them.

The policies are stacked in upright files. There are two main divisions,—for policies covering properties owned and properties held as collateral. The arrangement of both divisions is first by trust numbers and then by properties. Each policy is kept in a manila envelope $4\frac{1}{4}'' \times 9\frac{1}{2}''$, open at the end. On the envelope are indorsed the number and name of the trust account, the premises insured, company, number, amount, and expiration of the policy. If collateral with a mortgage, the name of the bondsman is also given. The envelopes for policies owned may be printed in black, and those for policies held as collateral, in red.

A slip giving a description of each policy, and showing that it has been filed by the insurance clerk, is placed with the real estate or mortgage papers.

A printed form is used to notify mortgage borrowers of the expiration of collateral insurance. This notification should give the name of the mortgagee to whom the policy is to be made payable in case of loss.

CHAPTER XV

INDIVIDUAL TRUST DEPARTMENT — (*Continued*)

RECEIPT OF TRUST FUNDS

THE entire separation of the affairs of the banking and trust departments makes it necessary to have separate trust department receiving and paying tellers. If the trust department is small, both offices may be filled by a single individual and may even be combined with other duties.

All cash receipts of the trust department pass through the hands of its receiving teller and are included in his daily settlement. Mortgage interest and rents come to him directly from the payers and tenants, but coupons, interest and dividend checks, bonds, and other principal items are received through officials of the trust department. Some of these have to be collected by messenger, and are then turned over to the receiving teller. The cash should in all cases go from the collector to the receiving teller, and never be allowed to pass through the hands of the bookkeeper.

In the banking department, the receiving teller enters the amount of each deposit in a pass book which he returns to its owner, while he retains the deposit slip. In the trust department the procedure is somewhat different. The bookkeepers prepare bills and corresponding credit slips for mortgage interest, rents, etc. These credit slips are passed in advance to the receiving teller and are filed by due dates and names of payers, so that the slips representing overdue items always appear at the front of the teller's index. The bills are verified when presented for payment. The slips are stamped "paid" and the bills are receipted and returned. When collections are made by messenger, bills are not sent out, but the necessary credit slips are prepared by the bookkeepers, and, with the cash, are passed to the receiving teller by the collector.

Coupons are cut, and notes and other maturing securities are taken

out by the officer in charge of the vault and are deposited by him with the receiving teller as cash or for collection through bank. The accompanying credit slips are prepared by the bookkeepers. Registered interest and dividend checks which have come by mail are passed to the teller with credit slips showing the accounts to which they belong.

The credit slips covering each of the different kinds of receipts are listed by the teller on an adding machine or in a scratcher, and are then passed to the bookkeepers for posting just as is done with the deposit slips in the banking department. The receiving teller's settlement shows the total of each sort of receipt, divided into income and principal. Important and often difficult problems arise in deciding what is principal and what is income. The distinction is fundamental and all doubtful cases should be referred to the trust officer, and, if necessary, to counsel. If separate corporate trust and individual trust departments are maintained, the settlement shows the receipts first by departments and then according to the nature of the item. The total receipts for the day settle with the cash on hand and the amount deposited in bank.

The stamp used in indorsing checks for deposit shows that the check has been paid to the trust department of the company. In states where it is not contrary to law, the trust department usually deposits its funds to its credit in an account in the banking department. In certain states, however, a trust company is required to deposit its uninvested trust funds in some other financial institution.

DISBURSEMENT OF TRUST FUNDS

In the trust department all funds are disbursed by the trust officer or by the payment clerk to whom this authority is delegated. As agent or attorney, the company makes payments in accordance with the directions received from time to time from the owner. As trustee or executor, it is governed by the terms of the deed or will, in the latter case subject to the supervision or direction of the court; as administrator, by the intestate laws and orders of court.

The disbursing officer of the trust department must be familiar with the conditions of each case, and this makes his problems more

complicated than those of the paying teller in the banking department, who before paying a check has only to know that the signature and indorsements are genuine and the bank balance sufficient. Sometimes an opinion of counsel should be obtained or a special order of court may be necessary as to the right or duty of the company to make disbursement of trust funds. Sometimes proof must be had that the beneficiary has complied with certain requirements contained in the instrument creating the trust, and so is properly entitled to the payment. An annuity, for example, may have been made payable to an agent. No such payment should be made without satisfactory evidence that the annuitant is alive at the time. When income payments are made, a sufficient sum must be retained to cover commissions, taxes, repairs to real estate if any, and other charges against the estate, and the disbursing officer must use considerable judgment in making provision for fixed or contingent liabilities, at the same time satisfying the reasonable demands or needs of the beneficiaries. Payments may occasionally be made, even when there is no cash balance to the credit of a trust account, if such a course is to the advantage of the estate, and the trust company is protected against loss by assets sufficient to cover the overdraft. This is often done to settle debts, provide for funeral expenses, pay taxes, or make reinvestments when securities are about to mature. Interest is charged on all debit balances.

A card index arranged as to years, months, and days serves as a guide in making disbursements. Under each date the cards are indexed alphabetically by the names of the accounts. When a regularly recurring payment is made, the card is moved to the corresponding distribution date of the next year. This index covers income payments, annuities, and other charges against trust estates, such as interest and principal of mortgages, taxes, etc. For regular income payments, standing orders are usually filed, directing that they shall be remitted by mail or placed to the credit of the beneficiary's deposit account in the banking department or with some other company. Those who prefer to collect income in person are paid by check, after establishing their identity.

Before any payment is made, a charge slip is prepared, and signed by the officer authorizing the disbursement, which shows the account

charged, the payee, and the details of the payment. A check or voucher is then filled out, and signed by the proper officer or officers. The check should bear on its face the words "trust funds" and should be so drawn that the indorsement will serve as a receipt. In the case of repairs to real estate, the bill takes the place of a charge slip.¹

When the accounts of executors and trustees come up for audit, vouchers are required by the court covering all disbursements. These receipts are either filed with the account or presented if called for. In parting with trust assets other than cash, an order is signed by the proper officer, authorizing the withdrawal from the vault and delivery of the securities. A receipt or release is taken when the securities are delivered. When legacies are paid prior to final accounting, receipts or releases are filed or presented in the same manner as receipts for other disbursements. When legacies are paid after final audit of the account in accordance with the court's adjudication, the receipts or releases of legatees are sometimes filed with the clerk of the court, thus completing the record of the settlement of the estate.

The daily settlement of trust disbursements shows the total of the charge slips, separated according to the principal and income payments, and this should agree with the total of checks issued as shown by the stubs. The balance in bank and the cash in possession of the trust department receiving teller represent the uninvested trust funds at the close of business and agree with the amount shown by the general ledger. The bank account of the trust department should be settled weekly, and reconciled with the check stubs or whatever other record is kept of trust checks issued.

RECORD OF INDIVIDUAL TRUSTS

When securities are received for trust accounts, a duplicate of the receipt is filed for reference, and from it a description of the items is at once transcribed into an accession book called the record of trust securities received. This book contains a series of parallel columns, showing the number and name of the account, description

¹ See p. 331.

and value of the security, when and by whom received, by whom entries covering the item were made in the proper books, when and by whom the securities were finally deposited in the vault, and a last column to be initialled by the controller after all the proper entries have been made and the security has been put away. Each clerk upon making the entries for which he is responsible places his initials in the proper column. This record is also used as a receipt book, and indicates in whose hands securities are and how far the records have been completed. Cash received is at once entered in the cash book, and does not appear in the accession book. The accession book may be so ruled that every kind of security can be entered in it, or if the company transacts a large business it may be divided into two books, one for stocks and bonds, and another for real estate and mortgages; or if desirable it may be still further subdivided. Slips are sometimes used to report new securities, but a bound book is preferable. The value of the accession book lies in its calling the attention of the clerks to each possible place where entries should be made. The initials in the various columns place responsibility for the correctness of the entries, and the examination by the controller detects any omissions.

The number and name of each new trust account, and the capacity in which the company acts, should be entered in the record of trust securities received when the account is opened.

The record of trust securities delivered is a companion book to the record of trust securities received. An entry is made in the delivery book when securities are sold or delivered, when any principal payment is received, or when a trust account is closed. The book can either contain all deliveries or, like the accession book, it can be divided into separate volumes for the different classes of securities.

The record of individual trusts is the most important book of reference of the trust department. Supplemented by the trust ledgers, it gives the present status of each trust account and forms a history of all past transactions. It should not be kept by the officer who has charge of the securities. For such constantly changing records as those of trust assets, a loose-leaf book has many advantages. Space is saved, as extra pages are inserted only as needed and dead matter is transferred to separate binders. Accounts can

always be kept in their numerical order; securities can be classified and, where there have been many changes, single pages can be rewritten at any time, without the necessity of copying the whole book. Sheets 11" long by 12" wide (exclusive of the blank binding space), kept in locked binders, have been found well adapted to the purpose. Each trust account has an abstract sheet and as many of the following sheets as are needed to record the securities it holds.

Sheet A.—At the top the word "abstract" is printed, and space is left for the title of the account and its accession number. The remainder of the page is devoted, as its name implies, to a brief description of the account. The nature of the appointment and of the estate, the disposition of income, authority as to investments, nature and amount of debts and encumbrances, notice of assignments, rate of compensation, exact title in which securities are registered, power to sell, if any, and the name and address of counsel are shown, together with the names of the beneficiaries and miscellaneous data. The sheet is divided into three columns, and the headings are printed far enough apart to leave room for the various entries. The back of the sheet is also ruled, and can be used in recording further information.

Sheet B.—"Coupon bonds" is printed at the top of the sheet, followed by spaces for the name and number of the account. Both sides of the sheet are ruled and printed. Every fourth line is ruled more heavily than the rest. This divides the page into spaces of four lines, and each security is entered in a separate space even though it does not fill it entirely. At the left-hand side is a date column, a column for tick marks, then one, $3\frac{1}{2}$ " wide, for the description of the security including bond numbers, columns for the date of maturity and interest periods, cash columns for the par value and the appraised or cost value, and, lastly, a wider column for payments and remarks.

Sheet C.—Stocks. Columns are ruled for date, tick marks, number of shares, description, certificate numbers, dividends payable, par value, appraised or cost value, and payments and remarks. Every second cross line is heavier, a space of two lines being devoted to each security.

Sheet D.—Notes and miscellaneous securities. Columns for date, tick marks, description, par value, appraised or cost value, and payments and remarks. The cross rulings allow three lines for each security.

Sheet E.—Registered loans. This page is like sheet B in every respect except the title.

Sheet F.—Mortgages. Columns for the date, tick marks, premises, bond of, maturity, interest rate and dates payable, par value, appraised or cost value, and payments and remarks. A space of four lines is provided for each mortgage.

Sheet G.—Real estate. The date, description of the property and of encumbrances, and the appraised or cost value are shown, with a final column for payments or remarks. Six lines are allowed for each property.

Other sheets can be provided as needed for securities not included in the above list. Thus, where real estate loans in the form of ground rents are held in any number, a sheet should be used, ruled to show the date, premises, whether redeemable or irredeemable, rent payable, rent per annum, par value, appraised or cost value, and payments or remarks.

Additional purchases of securities already held are entered in the same space as the original investment, thus obviating the necessity of rewriting the title of the bond or stock. When one space is not enough for the description of an investment more are filled. Both sides of the sheets are used, and as many sheets of each kind as are needed.

The will, deed, or other authority under which the account is received, the record of securities received and the securities themselves, are the sources from which entries are made in the record of individual trusts. The par values are verified by actual comparison with the securities, and the total of the appraised or cost values of each account must settle with the total investments of the estate shown in the individual trust ledger. The total appraised or cost value of all investments of each sort held, settles with the corresponding general ledger account. All securities sold or distributed are ruled out, and the particulars are noted on the sheets in the space provided for this purpose. When all the securities

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[illegible]

on a sheet are ruled off, the sheet is taken out and filed in a transfer binder. When an account is closed, a closing entry is made on the abstract sheet, the sheets are stamped "closed," and are transferred in the same way. The record of securities delivered is the authority for making these entries. If a page has to be rewritten, it is not destroyed, but is marked "rewritten," and is filed with the others in the transfer binder.

A card index arranged alphabetically, and giving both the name and accession number of each trust, makes it easy to refer to any account in the record of individual trusts. It also serves as an index to all valuable papers, not securities, which may most conveniently be kept together under trust numbers in vertical filing cases, in a vault or fireproof case. The index of trusts is divided into open and closed accounts. When an account is closed the card is stamped "closed," and is transferred from one section to the other.

In addition to having in the record of individual trusts an abstract of the authority under which the company acts, it is well to have complete copies of these documents in accessible form. For this purpose a typewritten copy of each will, deed of trust, agreement, power of attorney, or other document is made when the account is received. These copies are kept flat in binders, in order of the accession numbers of the accounts. When an account is closed, the copy of the will or other authority is removed from the binder, and is filed with the estate papers. In this way, live matter only is contained in the binder.

INDIVIDUAL TRUST LEDGER

Other elements besides cash enter into the individual trust accounts, and consequently a different form of ledger from that used in the banking department is required. This ledger is preferably a loose-leaf book. The accounts are kept in alphabetical order. The trust number is used throughout as an additional safeguard in placing the items. At the top of the page appear the name and number of the account, and the rate of compensation. When it is necessary to separate accounts of proceeds of sale of real estate from

accounts of personal property, two ledger sheets may be used for one trust so as to simplify the preparation of the accounts to be filed with the court. The sheets are ruled on both sides. At the left of the sheet are date columns and a description column. This column should be wide enough for as full an explanation of each item as needs to be given in accounting to court or to the beneficiary, and each entry should be so complete that the ledger sheet can be handed to an intelligent stenographer to prepare court accounts or statements from it. Next comes a narrow column for the check or voucher number, which is useful in identifying checks when needed for reference or to be produced in court. The rest of the page is filled by cash columns under the three main headings of income, principal, and investments. In some cases it may be preferable to use one sheet for principal and investments and another for income.

In the "income" section under debits are shown payments to creditors and beneficiaries, taxes, repairs, interest on overdrafts, commissions, and all other distributions chargeable to income. Under "gross credits," all income receipts are entered. The next columns are headed commissions and net credits. The gross amount of each income receipt is thus shown, followed by the commission on it, and the net sum for distribution after deduction of the trust company's charge. The commissions and net credits settle with the gross credits. By computing the commissions on income at once in this way, the danger of over-payments of income to beneficiaries is avoided and it becomes unnecessary to pick out the items later, so as to compute the amount of compensation on the total. The balance column, which completes the income section, shows the difference between the debits and gross credits; in other words, the balance of income on hand for distribution and payment of commissions. Debit balances are shown in red.

The "principal" section consists of debit and credit columns, and a balance column. The credit column shows the corpus of the estate at the opening of the account, and all subsequent accretions. The debit column shows all losses and amounts paid out in distribution. The balance column gives the difference between the two, which is the amount of the corpus of the estate for which the trust company is liable. There is no separate column for commissions on principal,

as these items do not appear often enough to make it necessary.

Under "investments" are columns for debits, credits, and balance. The debit column shows that part of the corpus of the estate which is invested at the opening of the account, and the cost of all subsequent purchases of securities. The credit column gives the amount realized from sales of investments, and the amount of investments distributed in kind. The balance column shows the amount of investments on hand.

The amount of uninvested principal is found by deducting the debit balance in the investment section from the credit balance in the principal section. The total amount of cash on hand belonging to the estate is composed of the uninvested principal, and the balance in the income section. If the estate is over-invested, or if the income receipts have been anticipated and paid out, the cash balances may show an overdraft.

Ledger postings are made from the credit and charge slips described under receipt and disbursement of trust funds. The credits and charges are also listed in scratchers. The totals of the individual trust ledgers settle with the controlling accounts in the trust general ledger.

Daily balance and interest slips are used, similar to those in the banking department,¹ except that they cover a three months' period, three columns showing principal balances and three income. Calculations of the interest charged or allowed are made on daily balances as in the case of deposit accounts.² Each day's changes are made on the slips, and the resulting figures are called back to the ledgers to verify the ledger postings. In accounts where principal balances are not for investment, this fact is noted on the slip. Each day, as the changes are made, blotters are inserted in the files of balance slips, different colors being used to denote principal and income items. At the time of verification with the ledgers, the blotters marking income changes are taken out, while those representing changes in principal balances are moved so as to show at the opposite end or side of the file, which is then used in making the daily changes on the index of uninvested principal balances.³

The accounts in the individual trust ledger are closed at fixed

¹ See p. 110.

² See p. 109.

³ See p. 378.

intervals when statements are rendered the beneficiaries, or when accounting is made to court. Trial balances should be taken off at least once a month. On the trial balance of the individual trust ledger, cash is the balancing account, being the difference between the principal and investment section plus the balance in the income section.

Accounts are filed in court in accordance with legal requirements. The books of the trust department should be so kept that such accounts may be merely a transcript of the ledger. The courts usually prescribe the form in which accounts shall be filed, for the sake of uniformity often fixing even such details as the size of the sheet to be used. As accounts may cover long periods, it is well to have the transcripts kept up to date, so that only the work of a short period will have to be added to them before the account is filed. In this way, lengthy accounts can be prepared in slack times and kept ready for immediate filing, without interfering with the current work of the department.

Statements should be sent at least once a year to the clients of the trust department; when possible, a semi-annual or quarterly account is to be preferred. As most statements are sent out at fixed dates which can be determined in advance, they should be prepared beforehand, so that only the last items have to be added at the close of the period. Prompt rendering of such statements is always appreciated by the recipient.

TRUST GENERAL LEDGER

In the trust department a double entry system of accounts is used, which is complete in itself and independent of the general books of the company. Its connection is only shown by the item of uninvested trust funds, when these are deposited with the banking department, and by the earnings from the business which are transferred by cash entries, at fixed periods, to the company's income account, and so appear in its profit and loss account.

Whether there be a single trust department or a corporate and an individual trust department, each keeping separate sets of auxiliary books, the main threads of the trust business are gathered

together in a single general ledger. A bound volume with the ordinary ledger ruling may be used. In its simplest form, the trust general ledger contains the following accounts:—

Principal.—This account shows the total corpus or principal sum, invested and uninvested, of the estates in the trust department at appraised or cost values. It may appear in the general ledger as a single account or divided according to the capacities in which the company acts.

Income.—Here the total income to the credit of the various trust accounts is shown, either in a single account or separated as in the case of principal.

Investments.—This account shows the total of all invested trust principal with which the company charges itself. The difference between the principal and investment accounts represents the amount of uninvested principal. Cost or appraised values are shown. A single account may be used, although separate accounts for the various classes of investments are preferable and, if thought wise, each one can be subdivided according to the capacity in which the company acts.

Cash.—This account shows the total amount of cash with which the company charges itself. It includes income and principal moneys awaiting distribution, principal for investment, and accrued commissions.

Commissions.—To this account are credited the various items of commissions as they accrue. At fixed periods, usually once a month, it is closed into the earnings of the company by a cash entry.

The general ledger balance sheet containing the above accounts is as follows:—

TRUST DEPARTMENT GENERAL LEDGER BALANCES

<i>Debits</i>		<i>Credits</i>	
Cash	\$500,000	Principal	\$4,800,000
Investments	4,500,000	Income	190,000
		Commissions	10,000
	<hr/>		<hr/>
	\$5,000,000		\$5,000,000
	<hr/>		<hr/>

If the corporate and individual trust departments are separate, the same balance sheet appears in the following form:—

TRUST DEPARTMENT GENERAL LEDGER BALANCES

<i>Debits</i>			<i>Credits</i>	
Cash	\$500,000		Principal:	
Investments:			Corporate,	\$1,800,000
Corporate,	1,700,000		Individual,	3,000,000
Individual,	2,800,000	4,500,000		<u>\$4,800,000</u>
			Income:	
			Corporate,	\$90,000
			Individual,	100,000
				<u>190,000</u>
			Commissions:	
			Corporate,	\$5,000
			Individual,	5,000
				<u>10,000</u>
		<u>\$5,000,000</u>		<u>\$5,000,000</u>
		=====		=====

If all trust business is cared for in a single department, but a more detailed balance sheet is desired, the general ledger accounts shown above are divided according to the capacities in which the company acts and the kinds of investments held.

TRUST DEPARTMENT GENERAL LEDGER BALANCES

<i>Debits</i>			<i>Credits</i>	
Cash	\$500,000		Principal:	
Investments:			As executor,	\$500,000
Coupon bonds, \$1,000,000			As administrator,	300,000
Stocks,	500,000		As guardian,	100,000
Notes and miscel. sec's.	10,000		As trustee under will,	2,000,000
Regd. loans,	1,500,000		As trustee under deed,	1,500,000
Mortgages,	1,000,000		As attorney,	400,000
Real estate,	490,000	4,500,000		<u>\$4,800,000</u>
			Income	190,000
			Commissions	10,000
		<u>\$5,000,000</u>		<u>\$5,000,000</u>
		=====		=====

The income and commission accounts can be divided to correspond with the principal account. Each class of investments can

also be divided according to the capacity in which the company acts. Where there are separate corporate and individual trust departments, the same subdivisions can be made under each department. The number of accounts in the general ledger and the consequent amount of detail shown on the balance sheet depend on the size of the business and the information required by the officers. For a small company, the simplest form will suffice. A large business requires a more detailed analysis of the general ledger accounts.

The trust department general ledger is closed at the end of the fiscal year by bringing down the balance of each account before commencing the business of the new period. The process is simple, as the company's expenses are shown in its general books, and commissions is the only account in the trust department general ledger to be transferred to earnings.

In the trust general cash book, if the business is settled on a daily basis, separate columns for income, principal, and investments appear on both debit and credit pages. When securities are sold, paid off, or delivered, the original cost is charged to investments, and any profit or loss resulting from the transaction is either credited or charged to principal. When securities are bought and carried at cost, the amount paid is credited to investments. The data for each entry are obtained from the charge or credit slip, which shows the component parts of the item and the accounts into which it is to go. The day's total of each class of receipts and expenditures is posted from the cash book to the general ledger.

If the business is settled on a monthly basis, the cash book should be ruled with a separate column for each of the active general ledger accounts, so that the totals can be posted instead of the individual items. A miscellaneous column is used for the inactive accounts, and each item entered in it is posted separately.

The journal is ruled with two columns for each active general ledger account and two for miscellaneous items. From the columns for active accounts, postings to the general ledger are made by totals, while from the miscellaneous section each item is posted separately.

A trust department comparative daily balance sheet is prepared

for the use of the officers of the company.¹ At the left-hand side of the sheet appear the titles of the various accounts followed by cash columns for yesterday's and to-day's balances and increases and decreases to-day. The assets appear at the top of the page, divided according to the arrangement of the accounts in the general ledger, to show the various sorts of investments held. The liabilities follow, separated into principal held in various capacities, income, and commissions. The number and arrangement of the items is determined by the accounts carried in the general ledger. Totals of both assets and liabilities are shown, and net changes in each, in order to balance the footings.

A comparative monthly balance sheet in the same form, but printed on a different colored paper, is used to show the changes in the business from month to month.

A monthly statement should also be made of the number of trust accounts opened and closed, and the resulting balance of open accounts at the end of the month. The lists of accounts opened and closed should give the names, with a short description of the size and character of each estate, and the capacity in which the company acts.

COMPENSATION

California was the first state to develop a standardized basis for trust company fees and charges.²

A special committee of the Trust Company Section of the American Bankers' Association, after canvassing the trust companies of the country, has prepared a tentative schedule of charges³ based on the following determining factors:

That a standard schedule must be fixed upon the understanding that the duties involved and responsibilities assumed are those usual in the average trust of its kind, as administered in the average community, with efficient service rendered and adequate skill employed.

¹ See p. 432 for description of a similar balance sheet.

² See "Schedule of compensation for fiduciary services adopted by the trust companies of California," by J. H. Coverley, *Trust Companies Magazine*, Vol. VII, p. 19 (July, 1918).

³ See Appendix, "Schedule of Charges," p. 472.

That the compensation must be fair and reasonable for the service rendered, and advantageous to the patron as well as remunerative to the trust company.

That exorbitant charges retard or prevent the growth of trust business, while inadequate charges eventually result in a deterioration of the quality of service rendered, which in turn reacts unfavorably upon the expansion of trust business.

That a uniform or standard method of charging throughout the country should tend to stabilize the trust business and create a better public opinion of the value of trust service.

That as a guide or indication of general trust costs the schedules should serve as a deterrent to that evil now prevalent in many communities, namely, "injurious cutting," which practice inevitably results in inefficient trust service.

The committee expressed its belief that adherence to the tentative schedules, as nearly as may be possible, after making the necessary modifications to comply with local usage, laws and customs, will have, among others, the following beneficial results :

It will enable small trust companies with inexperienced officers to fix fees on a basis of reasonable profit, and thereby eliminate the features of experiment and guesswork.

It will tend to eliminate, among the larger trust companies, the injurious practice of price-cutting to a point below the reasonable cost of service.

It will provide all banks now organizing trust departments with a guide in their early endeavors in the trust business that they may be able to conduct their business upon a remunerative basis from the very beginning, and thus attain more quickly the standards of efficient service maintained by the state trust companies, and preserve the public confidence now reposed in these companies.

It will enable trust departments of banks now used only as feeders of other departments to become self-supporting and reasonably profitable, many such departments now being operated at a loss in so far as compensation for their specific functions is concerned.

It will develop in the public a realization that the trust business is conducted upon efficient and scientific lines; that the compensation charged for fiduciary services has been carefully computed and ascertained to be fair and reasonable in all cases; that all patrons are treated with equal justice, regardless of the nature or volume of their business.

It will enable attorneys to advise clients as to the approximate charge for proposed trusts and promote a harmonious and coöperative relationship between the attorney and the trust company.

It will enable the trust companies in various districts and localities in the United States to compete keenly and fairly with one another on a basis of efficient service and skill, rather than upon a basis of cheapness of price.

It will enable trust company patrons to proceed with some degree of assurance as to the cost of the service which they require.

“The maintenance of a high standard of service depends, to a large extent, upon the adequacy of the compensation received by the companies. It therefore becomes a matter of vital necessity to ascertain the cost of trust service to the company, and to formulate a schedule of charges which will enable the trust companies of the country, not only to maintain their present efficiency, but to increase the scope of their activities and to improve the quality of the service now rendered by them.”¹

This approximate scale of charges for services rendered by the trust department is a safe starting point. It can be followed with confidence and developed or modified as experience may prove necessary. Some of the rates will probably have to be advanced as the cost of the service rendered or the responsibility assumed is found to be out of proportion to the fees tentatively suggested, which have purposely been fixed on a conservative basis.

When a trust company serves in capacities in which its actions are subject to review by court, the compensation is fixed either by statute or by order or decree of court. The courts usually allow

¹ Report of Committee on Standard Forms and Charges, J. A. House, Chairman, Trust Company Section, A.B.A. St. Louis, 1919.

Trust No..

Schedule of Charges

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trust companies the same compensation that would be given to individuals acting in similar capacities, and this may be made the foundation of the company's schedule of rates. When a trust company and one or more individuals act as co-executors or co-trustees, the commissions may be equally divided, or the trust company, if it cares for the securities and does the principal part of the work, may receive the larger share of the commissions. If the estate of which it is executor or trustee is very large, the court may decide upon a commission smaller than that usually allowed.

As agent and attorney, the commission charged for the mere collection of interest and dividends is less than for taking care of the securities also. A larger commission is charged for collecting rents than for collecting interest and dividends on bonds and stocks. When acting as trustee, the commission is based on the value of the trust property or is charged on the income collected, and on the principal of the personal property at the close of the trust. No commission is charged for reinvesting.¹ In executorships, a commission is charged on both principal and income. In Pennsylvania, if the same person is executor, and also trustee, he is entitled to receive or charge but one commission on the principal coming into his hands. When a trust company is to be named as executor or trustee under a will, an agreement as to charges is often made with the testator. Under such circumstances, the company's officers can be consulted with perfect propriety and in entire confidence, and other matters besides that of compensation can be settled, such as the appointment of co-executors, while the testator may at the same time obtain valuable advice as to the best methods of carrying out his wishes.

Commissions should be charged on each item when it is collected, or at the end of each month or quarter, except in estates in which the rate of compensation is subject to review by the courts. The general principle that earnings of the company should wherever possible be taken credit for during the period in which they accrue, holds good here.

¹ For compensation of trustees in the various states, see "A Trustee's Handbook," by Augustus Peabody Loring, p. 30 *et seq.*

CHAPTER XVI

INVESTMENTS

FUNDAMENTAL PRINCIPLES

THE true nature of the investment fund and the importance of its functions should be understood.

No nation or individual can prosper except through industry and frugality resulting in the production of sufficient wealth to exceed actual needs. Industry in a people as a whole, and the production of sufficient supplies of all those commodities which go into consumption and contribute to the physical welfare and happiness of the population, are the necessary basis for an improving standard of living conditions.

Inventions and the introduction of labor saving machinery, although they may cause social readjustments and temporary inconvenience, in the end benefit not only mankind as a whole, but every individual. Under peace conditions, famine and pestilence are no longer the constant menace they were during the centuries when the maximum efforts of the tillers of the soil were barely sufficient to meet daily needs, when a crop failure meant starvation.¹ Concentration of population in the industrial centres has cheapened the necessities of life; improved machinery—the reaper, the binder, the tractor, the milker and the separator, for instance—have increased the productivity of farm and dairy, giving a margin beyond actual needs; while more important still, the development of transportation has put the surplus within reach of all the world.

The popular conception is that the acquisition of wealth is a process of hoarding and involves the withdrawal of money, goods, buildings and land from the common store; that this process takes from the community at large and thus tends to impoverish all but those who acquire. This might be so were it possible to obtain possession of the property itself and store it away permanently unproductive and out of reach. Except, however, in rare instances, as when in panics gold is locked up

¹ See "The Romance of the Reaper," by Herbert N. Casson.

in safe deposit boxes or goods are hoarded for selfish ends, the contrary is the fact. It is so for a very simple reason. The value of his property to any investor is in the return which it gives him, resulting from its use. Idle investments whether in the form of land, buildings or goods tend to become liabilities rather than assets and sooner or later are forced out of hiding and into use through the operation of economic laws or community pressure.

As no single individual can with safety eat more than three meals a day or with comfort wear more than one suit of clothes at a time, it is obvious that there is a limit to the extent to which the individual, however wealthy, can expend upon himself the income from the portion of the investment fund to which he holds title. The surplus income beyond his own personal needs not used in the purchase of goods and the direct employment of others, is returned to productive enterprise through the purchase of securities or in the form of deposits, which are in turn, through the medium of banks and trust companies, made available to commerce and manufacture.

The community must protect itself, however, from the absorption of excessive and arbitrary power in the hands of the few. Laws against entail, taxes on inheritances and incomes, etc., represent the effort so to protect itself. The task of statesmanship is on the one hand to offer such inducements as shall keep the investment fund productively employed, thereby fostering invention, stimulating development and making progress possible, and on the other hand to retain effective control through the power of taxation.

Enlightened laws can be so framed as to guarantee equality of opportunity, develop natural resources, reduce cost to the individual, and at the same time attract capital and give an adequate return on the investment fund.

The resources of mine, field and forest, the inventive faculty of the human brain, the labor of hand and mind, the investment fund, are all parts of a whole.¹ When they coöperate for the common good, and each element is given its fair reward and its proper share of control, they become irresistible in producing wealth as a basis for that steady progress in education, material comfort and spiritual well-being which leads to peace and happiness.

¹ See "The Nature of Capital and Income," by Irving Fisher, p. 7.

The ideal investment¹ must contribute to the improvement of the people as a whole. Every investment should at least be without harmful effect. From the investor's point of view safety of the fund is a prerequisite, and an adequate return for its use is essential. The enhancement of its value is the hope which accompanies every commitment. The possibility of conversion is a factor of prime importance. The element of risk is ever present, and so prone is human nature to take excessive risks in the hope of large gains, that collective restraint, in the form of strict legal limitations, has been found necessary to curb the tendency to speculation in all those who act in a fiduciary capacity.

Collectively the bankers of the nation control so large a part of the investment fund that the use to which they put it is of vital importance to the entire population.² The key to opportunity and progress is in their hands. With access to information not open to the man on the street, they are not a prey to the swindler. It is their privilege to direct the development of industry. With broad vision and impartial justice they may distribute the investment fund for the uses contributing most to the common welfare and thus not only improve the standard of living, but elevate the ideals of the whole people.

LEGAL BASIS

The trustee's duty in investing funds is a double one; to invest them securely so that the principal shall be preserved intact, and to invest them as productively as possible under his powers, so that they shall yield the best rate of interest obtainable for the benefit of the person or persons entitled to the income. The popular idea that security is the only consideration is erroneous, as the trustee is equally bound to invest the funds profitably and cannot neglect one duty more than the other.³ The further mistaken impression that a corporation, even more than an individual, when acting as trustee, is mindful only of the safety of the principal and entirely loses sight of the question of income, has arisen from the restrictions as to investments imposed by law, and frequently also by the will or trust deed, and from the fact that the individual executor or trustee, rightly or wrongly, sometimes assumes risks and personal liability which the proper rules of a trust company would not permit.

1 See "The Principles of Bond Investment," by Lawrence Chamberlain, pp. 13-28.

2 See "The Banker at the Boarding House," by Montgomery Rollins, pp. 370-411.

3 See "A Trustee's Handbook," by Augustus Peabody Loring, p. 95.

Investments for attorney accounts are made in accordance with the directions of the owners or subject to their approval. The executor or trustee is governed, as to the kinds of investments, by the directions of the will or deed of trust. This may require the purchase of "legal investments" only, or state that the trustee is not to be confined to securities prescribed by law, or give specific directions as to the classes of securities which are to be bought. The terms of such documents are always strictly construed by the courts; if no directions are given, the trustee is expected to buy only "legal" securities, and when he exceeds his powers he is held responsible for any loss. Administrators and guardians without broader powers given by will are obliged to invest, except at their personal risk, in such securities as are sanctioned by law or directed by the court. In Great Britain¹ and in many of our states² the securities in which a trustee may invest are prescribed by statute. These provisions vary greatly, some being very limited while others give wide latitude of choice.

Pennsylvania, for instance, confines trustees to the following:

Stock or public debt of the United States.

Farm loan bonds issued by Federal Land Banks or by Joint Stock Land Banks.

Public debt of the state of Pennsylvania.

Bonds or certificates of debt of any county, city, school district or municipal corporation of Pennsylvania.

Bonds or certificates of debt of any other state of the United States or of any county or city of any other state, but only by leave of court.

Bonds of one or more individuals secured by mortgage on real estate in Pennsylvania, which may be either a single bond secured by a mortgage or one or more bonds of an issue of bonds secured by mortgage or deed of trust to a trustee for the benefit of all bondholders.

Ground rents in Pennsylvania.

Real estate, and then only by leave of court.

New Hampshire on the other hand gives wide powers leaving the character of the investment largely to the judgment of the trustee, who is permitted to invest in the following classes of securities, subject to certain qualifying conditions:

Mortgages in the state, outside of New Hampshire in the United States and on timber lands in Maine and Vermont.

Notes secured by collateral and bonds secured by specified collateral in which the bank is at liberty to invest. Notes secured by New York and

¹ See Bibliography, p. 527.

² See "Trust Company Law," by John H. Sears.

Boston stock exchange collateral. Notes secured by savings bank and building and loan association passbook as collateral. Notes with two or more signers or one or more indorsers.

Acceptances of member banks of the Federal Reserve system.

United States public funds and Federal farm loan bonds.

Bonds of New Hampshire and municipalities. Bonds of any state or territory of the United States. Bonds or notes of cities in Maine, Vermont, Massachusetts, Rhode Island, Connecticut or New York. Bonds of municipalities of states of the United States or any territory, having certain qualifications. Bonds of the Dominion of Canada, its provinces and cities.

Bonds and notes of steam railroads in the United States. Guaranteed steam railroad bonds.

Mortgage bonds of terminal or bridge companies in U. S. and equipment securities guaranteed by such companies.

Equipment securities issued or guaranteed by the Canadian National Railways or constituent corporations.

Equipment trust certificates issued by the National Railway Corporation.

Receivers' certificates of steam railroads.

Dividend paying capital stock of steam railroads.

Mortgage bonds of public service corporations.

Dividend paying capital stock of senior preference of Public Service Corporations.

Bonds or notes of Public Service or water companies doing business principally in New Hampshire.

Bonds, notes and senior preference dividend paying capital stock of telephone and telegraph companies in the United States.

Bonds and notes and senior preference dividend paying capital stock of industrial companies outside of New England. Bonds, notes, stock, etc., of New England manufacturing companies.

"Where there is no statute or decision of the highest court fixing the class of securities in which a trustee may invest, he can safely follow the rule prescribed for the investment of the funds of savings banks."¹ In general, bonds of the United States, bonds of the state or any county, city or other political division of the state, and first mortgages secured on improved real estate with ample margin are among the investments sanctioned by law. As to real estate, stocks, and first mortgage bonds of railroads, manufacturing and other corporations, the practice varies in the different states.² Loans on personal property, second mortgages, and other investments subject to prior liens or of a speculative character are excluded. All investments must possess intrinsic value; the courts hold trustees

¹ See "A Trustee's Handbook," by Augustus Peabody Loring, pp. 96, 100 *et seq.*

² See "Investment of Trust Funds: Rules of Law and Practice," by A. V. Morton, *Trust Companies Magazine*, July, August, 1919.

liable for any losses from speculative risks—but any gains accrue to the trust estate.

The trustee must hold the scales evenly, regarding scrupulously his duties to all beneficiaries. He often finds himself charged with the duty of caring for what are or may become conflicting interests. Thus life tenant and remainderman may have very different views as to the course to follow in making investments. The purchase and sale of investments at a discount or premium may easily work injury to one or the other. Averaging, by the purchase of securities both above and below par, is a rough way of meeting this situation. The purchase of securities maturing at or before the termination of the trust may also obviate the difficulty. A method which in future is likely to be followed more generally than at present is the accurate amortization of premium or discount, based on the difference between purchase price and maturity value.¹ If a security has been bought at a premium, for instance, a proportionate part of the premium may be charged off at each interest period, so that no loss to the corpus of the estate will be shown at the maturity of the obligation.

The effect of taxation, national, state and local, is playing an increasingly important part in the choice of investments. Technical skill of a high order is required to avoid mistakes and to obtain the best possible result for the estate as a whole, with due regard to each individual concerned.²

The regulation of investment issues and increasing publicity in connection with flotations of securities are a protection to the trustee as well as to the investing public in general. So-called "blue sky laws" for the regulation of security issues have been passed by some states. The capital issues committee of the Federal Reserve Board did a signal service during the war and laid the foundation for a future system of federal and state regulation.

¹ See p. 534.

² See Tax Department, p. 189.

RULES FOR INVESTING

One of the first duties of a trustee on assuming charge of an estate is to make a careful examination of the securities and, subject to the directions of the instrument creating the trust, to dispose of such as are improper, unsafe, or unproductive. Investments should not be changed unnecessarily, but as the best interests of the fund demand.

Executors and trustees are often permitted, or directed, to retain the securities in which an estate is invested on coming into their hands, but in reinvesting are confined to other classes of securities. In settling an estate, it may be necessary to convert it into cash in order to pay debts and legacies, hence an executor is not required to keep an estate as closely invested as is a trustee who must hold it for the support of a beneficiary.

The trustee should no more hesitate to change investments than does the individual investor. Failure to make desirable changes will not be approved by an astute court on the ground that the investment was made by the testator. It was a comfortable theory that original investments might be held with less personal responsibility than those made subsequently by the trustee himself. Fortunately for the beneficiaries, the trustee can no longer hide with safety behind this cloak for sloth, incompetence or timidity. On the other hand too frequent changes, without sufficient reason, are to be deprecated. It is easy to slip from an investment basis to that of a trader and so to mere speculation.

In making new investments accurate information and records, definite standards, analysis and research by trained experts should all be used to reinforce the judgment of the trustee. No trustee can be held blameless who does not study fundamental conditions and keep himself informed of changing economic factors; for if losses are made, due to ignorance or failure to keep abreast of the times, they cannot be charged to difficulty in procuring information or causes beyond control. No capable trustee will ever regret either the time or money spent in reducing investment losses to a minimum. The introduction of systematic methods safeguarding the making,

watching and changing of investments not only relieves the trustee from much vexatious worry, but enables him to concentrate on the small minority of items which really need his best thought and effort. The great mass of investments needs surprisingly little attention if fundamental economic laws are studied and adequate statistical work is done.¹

In the past an investment once made was usually considered permanent until distribution of the fund or a marked change in value made selling advisable. So long as interest rates and security values did not fluctuate greatly, there seemed to be little advantage in making changes. When, however, as happened in the last years of the nineteenth century, money became so cheap that British consols and United States bonds were selling on a 2% basis, good municipal bonds at 3%, and railroad financing was done at close to 3½%, the conscientious trustee found himself hard put to it to reinvest maturing securities advantageously. So firmly did many feel that money had reached a permanently low level that large purchases of long term bonds were made for trust accounts on the interest basis then prevailing. The shrinkage in investments made at that period, even before the great war upset security values, was very marked and resulted in heavy loss of income as well as principal to many estates. If short term securities or sound stocks had been bought during the period of cheap money, the result would have been very different.

In those days bonds were always bought on a basis of the income yield if held to maturity — usually, too, without any attempts at amortization of premium or discount. “But as the events of the past two decades have shown, the theories of all the students and experts of that period have come to naught, with the result that the more logical theory of adjusting investments to shifting conditions is rapidly supplanting the old fashioned ideas. And it is proper that it should be so. It is wrong to say that the old fashioned method is the ‘conservative’ method, and that the new is not. A ‘conservative’ method is a method that ‘conserves’; and the old method has done anything but conserve. In brief, the conservation of investment capital can undoubtedly be more surely promoted through the

¹ See Statistical Department p. 217.

adoption of intelligent, modern methods of investment selection.”¹

It is to-day recognized that security values and interest rates are subject to definite economic laws based on the supply of money, activity of trade and other clearly recognized factors. How much management has to do with the success or failure of any enterprise, and consequently with the value of its securities, is better understood. How public opinion forces changes in laws and affects the value of franchises and the securities of natural monopolies under public control has been learned only too well. The yield value “if held to maturity” is becoming of steadily lessening importance, for bonds, like stocks, are more and more being bought during periods of low prices on a “straight” income basis with the intention of converting later in order to take advantage of higher prices.²

If one accepts the theory that periods of business activity and dullness necessarily follow each other and that security values consequently have a fixed relation to trade cycles, the matter of investing takes on an altogether new complexion. As it is seldom possible to buy at the bottom or sell at the top, averages must be the guide for action. It is generally unwise to invest an entire fund in one security. Any single investment, no matter what the care in making it, may go wrong. But with a well selected list of seasoned securities the net result, based on the average performance of all, can be reckoned on with almost mathematical accuracy. It is also wise to diversify the types of investment, so as to secure reasonable protection in face of changing economic conditions. Buying for permanent investment should be done to take advantage of the long swings in the market rather than short intermediate movements.

So called “dead” long term investments for which there is little or no market are as a general rule to be avoided and should be converted into “semi-liquid” or “liquid” securities as opportunity may occur. There are, however, exceptions to the general rule — as for instance in the case of the shares of trust companies, so closely held that wide fluctuations may be recorded between sales, but which, on

¹ John Moody.

² A four per cent. bond maturing in forty years if bought at approximately 70 yields 6% on an “if held to maturity” basis, while the straight return on the purchase price is but 5.71 per cent. if the increase in the value of the principal to maturity, spread over the intervening interest periods, is ignored.

a basis of earnings and dividends, can be trusted to show a steady increase in value. In such cases sales quotations must be supplemented by accurate knowledge of earnings, management and future prospects. Whenever such a security must be converted into cash at the termination of the trust it is well to watch for a good opportunity to sell — perhaps long before the funds are needed. The necessity for a quick sale may sometimes result in a loss of many points.

To sum up, the modern theory of investment requires:

- Up to date information
- Accurate statistical records
- Periodical investigation
- Security and legality of principal
- Averaging through holding a selected list
- Diversified investments
- Geographical distribution
- Buying long term issues when money is dear
- Buying short term issues when money is cheap
- Sound judgment and wide experience as the final basis of action.

A block of one security held for different trust estates cannot be treated as a single problem — for the conditions affecting the investment in different estates may vary so much as to dictate an entirely opposite policy in regard to buying, holding or selling. Thus convertibility at the termination of a trust may be the controlling factor in one account when in another account it is quite unimportant.

The problem of increasing the principal and income of trust estates deserves the best efforts of the corporate as well as of the individual trustee. Turning over an estate, enhanced in value, at the termination of a trust is a better creator of good-will for the trust company than any newspaper advertisement. The negative attitude of trying to prevent losses is not sufficient. The true measure of the trustee's fitness for his task is the steady improvement of the trust estate in principal value, income, and marketability, through intelligent investing.

TYPES OF SECURITIES

Styles in investments are almost as pronounced as in clothes. The records of the older trust companies show the evanescent popularity of successive types of investments which, in their brief day, contributed possibly to progress, but more often spelled eventual losses and financial upheaval. So plank roads, toll roads, oil companies, gold mines, wild cat banks, and railroad shares turned out by the printing presses faster than ties and rails could be laid, have left their imprint on successive trust estates.

Certain sound investments, on the other hand, have come but slowly into favor. Hardly to be distinguished at first from the mass of speculative securities, they have gradually demonstrated their value and finally reached a strict investment basis. Sometimes a second generation has profited by the courage and imagination of the pioneers who went before. De Lesseps and the French investors failed, but pointed the way for Roosevelt and the builders of the Panama Canal.

Only within two decades has the industrial trust been developed. Formerly, outside of New England, the conservative investor and the corporation acting as trustee did not concern themselves with production and distribution as such. To-day the organization of industry in larger units, with better methods of management and control, has led to the greater stability of industrial securities and their vastly increased importance as permanent investments. To foresee such development is one of the requirements of successful investing.

In the early days of the telephone, competition, imperfect equipment and indifferent service made telephone securities little more than a gamble. As scores of competing organizations disappeared, there emerged a strong company whose leaders understood that service, the fruit of sound management, was the test of ultimate success. So the investor was more and more attracted to this type of security. At last came the realization that the telephone is a "natural monopoly" and with this realization came government regulation and control of rates which limited speculative profits and

put these securities on a conservative investment basis. During the continuation of able management and good service the public will gladly pay adequate rates and permit a fair return on these investments. Failure to hold the good-will of the country at large will inevitably spell the decadence of telephone securities.

The principal kinds of investments¹ may be classified as follows:

Government bonds

United States

Foreign

State, county, municipal and district bonds

Mortgages and ground rents

Real estate

Steam-railroad bonds

Public service corporation bonds, including water, gas, electric light and power, street railway and telephone

Industrial bonds, manufacturing and mercantile

Stocks

Financial

Steam railroad

Public service

Industrial.

The war has once more made the obligations of the United States the best of all investments. With the security of the whole people and the power of taxation behind them, these securities stand in a class by themselves and offer an opportunity for safe investment, fair income yield and certainty of enhanced value second to none. So broad is the market that they can be readily converted into money at any time and at current quotations. Far sighted trustees have absorbed and will continue to absorb huge quantities of United States Government securities. The process of retirement was already under way before the signing of peace.²

In the case of foreign government bonds the fact must never be lost sight of that a government bond is usually a simple promise to pay, not enforceable by legal process, but depending primarily on the

¹ See "American and Foreign Investment Bonds," by Wm. L. Raymond.

² See Reports of the Secretary of the Treasury.

record for good or bad faith of the issuing nation. Fluctuations in price of government securities depend not alone on prevailing economic conditions throughout the world, but on the stability of the issuing government, its character, resources, expenditures, and amount of debt outstanding.

Legally issued obligations of the individual states rank next to the obligations of the United States. In determining the credit of the various states it is important to consider the proportion of debt to assessed and actual valuation, and to population; the record of the state for good or bad faith; constitutional provisions, character of the population, and more general conditions including prosperity and possibilities of future growth.

Price fluctuations of state bonds reflect not only general monetary conditions, but the credit standing of the issuing state. State bonds as a rule are simply promises to pay, and are not in the last resort enforceable by suit. It is consequently important to be certain not only of the ability of the state to pay its obligations, but of its willingness to do so.

County, city and district bonds are payable out of taxes upon the property within the issuing area. Unlike the Federal Government and the state, these political divisions can be sued without their consent. In case of default, bondholders can bring suit and demand tax levies. Otherwise the general conditions applying to issues of state bonds apply equally to those of counties, municipalities, boroughs, villages, park commissions, school boards and the like. The legality of all governmental issues must be determined absolutely before purchase. The opinion of counsel and the certification of the bonds themselves are necessary safeguards.

"County, municipal and district bonds are among the safest mediums of investment in the world. As far as the record for past performance goes, municipal bonds are entitled to greater consideration than any of our state bonds except the very best. To-day the laws governing the creation of debt by municipal or quasi-municipal corporations are conservative enough to make investment, in the bonds of communities even of moderate size, exceedingly safe."¹

"We have always favored," says one successful executive, "those

¹ "American and Foreign Investment Bonds," by William L. Raymond, p. 161.

investments based upon security we could see and those having the power of taxation behind them."

Next to securities having the taxing power behind them come mortgages and ground rents, which are included in the class of legal investments, subject as a rule to provisions that the loans shall be upon improved real estate with a fixed limitation based upon actual or assessed value. As real estate mortgages are not subject to price fluctuations, and yield a higher income return than government securities, they are a favorite form of investment for trustees.

Railroad bonds are, however, probably the largest class of securities held by trustees as investments in trust accounts, and may almost be considered the standard form of investment security.

As the value of railroad securities is dependent on the worth of the property and its earning power, it is essential to determine the relation of debt to assets and of net earnings to fixed charges. In addition, so many other factors are involved — such as origin, density and diversity of traffic; maintenance of way and equipment; future growth; whether a first or subsequent lien — that expert knowledge is essential in determining the soundness of railroad securities.

The market for railroad bonds, as for all fixed interest bearing securities, had a disastrous fall, due to the war. From this it may be expected to recover slowly, with the return to more normal peace conditions. Large book losses were made and actual losses when bonds had to be converted into cash. Income yields, too, were adversely affected. On the other hand, unheard of bargains made it possible for trustees to invest to very great advantage.

The uncertainty as to the future control of the railroads of this country has also depressed prices. Well secured first mortgage railroad bonds of the best systems are bound to regain their old popularity, no matter what the outcome, for a definite relation between the investment in the property and the return to security holders will undoubtedly be fixed.¹

The securities of public service corporations performing a variety of services and operating natural monopolies have a value based on assets and franchise privileges. Strong corporations giving good service and having the confidence of the populations they serve are

¹ See Transportation Act, 1920.

in a happy position. Under opposite conditions, hostility and drastic regulation can easily force bankruptcy and result in public ownership or operation, or both. The craze for public utility consolidations, the resultant overcapitalization in many cases, poor management and failure to obtain the good-will of the communities served have resulted in many failures, which have been emphasized by war conditions. The obligations of sound, well managed and properly capitalized public utility corporations have stood the test and proved the stability of the best public service issues. A property which, when taken over under the most unfavorable conditions by the bondholders, has been operated profitably and successfully by them may be regarded as a sound and satisfactory investment.

Industrial bonds have reached their present importance as investment issues within recent years. Manufacture and distribution, a generation ago in the hands of individuals and partnerships, have to-day passed into the realm of big corporate business. With the creation of larger units of industry, have come better accounting methods and greater publicity of financial statements. As public regulation and control have reduced the yield from other classes of securities, investment funds have been steadily attracted to industrial bonds burdened by fewer governmental restrictions and holding out possibilities of greater profits. The keenness of competition, fluctuations in earnings and dependence upon the quality of management combine to cause greater variations in the prices of industrial securities than of railroad and public service bonds. This field is full of pitfalls for the unthinking investor; for the modern investment department with complete statistical equipment and officers of intelligence and sound judgment, it has alluring possibilities.

The maturity of investment securities is largely determined by the condition of the money and investment markets at the time of issue. Temporary financing is often done through note issues when rates are high. In a cheap money market refunding operations provide for the retirement of the shorter issues through the sale of long term bonds. Some foreign government bonds, such as British consols, are merely promises to pay without any fixed maturity.¹ Similar provisions are occasionally found in corporate bond issues. The

¹ See "Stocks and Shares," by Hartley Withers, p. 335.

Lehigh Valley Railroad Company Annuity 6's of November 13, 1873, are an issue of this character.

Even more liquid than note issues are U. S. certificates of indebtedness, bank acceptances, and prime commercial paper running for brief periods, usually from thirty days to three, six, nine months or a year. Time and demand bank deposits are the most liquid of all investments.

Stocks are seldom included among the securities a trustee can buy and it is often necessary to sell stocks received as part of the trust fund in order to comply with testamentary provisions. In the same way it is often necessary to sell "rights" to subscribe to new issues of stock, even when it is permissible to hold the shares forming part of the original estate. It is a well established rule that a trustee must not invest funds in such a way that the trust estate has to share losses as well as profits.

The many capacities in which a modern trust company acts may, however, cause it to hold large blocks of shares, sometimes amounting to the control of a business. Here expert knowledge is absolutely essential. The trust company can become a valued ally of the business whose stock it holds, and the trust company's representatives may not only keep themselves informed, but give constructive help in problems of finance and management affecting the development and prosperity of the business. The management should always be left free to conduct the business after financial problems and questions of policy are settled.

On uninvested trust cash deposited in the trust company's banking department, a higher rate of interest may be allowed than on ordinary deposit accounts. When these funds are deposited in another institution, the same rate of interest that is received from the depository is credited to the trust account. Securities representing the uninvested trust balances may be bought and held by the company in order to secure a larger return than would be received from moneys on deposit. For this purpose it is usually advisable to hold short term securities, bank acceptances or prime self-liquidating commercial paper.

PURCHASE AND SALE OF SECURITIES

Bond Department

The Bond Department,¹ organized for the purpose of distributing securities, is of increasing importance in many trust companies. It competes with stock brokers and investment houses. With its close touch on the large clientele of the other departments, it can command a steady and growing business—if the issues it buys and recommends are wisely chosen. It is closely allied to the statistical department from which it draws much of its information.

Having a large distributing power, the bond department attracts the best issues and to that extent is of direct advantage to the beneficiaries of the trust department. When buying securities from or through the bond department, those officers charged with the responsibility of making trust investments must use just as intelligent care as when buying from outside sources.

The practice of carrying in the company's possession securities which are available for transfer to trust accounts, has much in its favor; a client can be shown a list of securities immediately available, and maturing obligations can at once be replaced. A word of caution is, however, necessary. Unmarketable securities must never be found in such a list, nor be sold to trust estates when they cannot be disposed of otherwise without loss, nor can profits properly be made through the purchase of investments and their subsequent sale at advanced figures to estates in the interest of which the trust company is supposed to be acting. One large and successful trust company which maintains a department for the purchase and sale of bonds, in order to be free from any taint of suspicion, invariably buys and sells for its trust estates through other firms, even when it can secure better figures through its own bond department. It must also be remembered that when the trust company owns securities and later sells them to its trust accounts, a greater moral responsibility is assumed than when the investments are purchased in the first instance for the trust department from outside sources.

¹ See Page 140.

MACHINERY OF INVESTING

The weight of responsibility involved in making and changing investments for trust accounts can be gathered from the fact that this is considered one of the most important duties of the general officers of the company. The current practice is to supplement the expert knowledge of the executive officers by committees of directors and sometimes small groups of stockholders who advise in regard to investments. The further practice of having such committees examine the list of trust investments at frequent intervals is to be commended. The British Public Trustee office has a permanent advisory committee of three well known bankers to supplement its own staff.

Consultation with beneficiaries can often be of real value and, even when no enlightenment follows such conferences, good-will is bound to result. It is very easy by a little tact, consideration and sympathetic interest to get helpful coöperation instead of the antagonism which arbitrary methods may easily produce.

The information gathered in the statistical and bond departments, their skilled personnel, their equipment and records can be of real assistance in the problems of trust investments. To take only one example, how many individual investors realize that trust indentures often require the purchase of a definite number of bonds for the sinking fund, or for retirement and cancellation, which cannot be secured without temporarily forcing up the price? The trustee who has this knowledge can sometimes do a good turn for the trust estate by keeping track of such issues and, when offers are called for, naming a price above current quotations, taking a profit, and later buying back at a lower figure when bids become scarce and offerings more plentiful.

No source of information should be despised, for grains of truth are found in most unlikely places. The days of denying admission to broker and salesman, of consigning circulars to the waste paper basket, and of considering an officer's title the badge of infallibility, are fortunately over. Expert advice from the bond and statistical departments is reinforced by all other available information.

The securities are assigned to the various trust accounts under the direction of the trust officer. All accounts should be kept as closely invested as possible.

Accurate records of the amount of balances for investment, of securities about to mature or subject to conversion, and of items of questionable value, should be readily available so that advantage can always be taken of favorable market conditions.

The record of cash balances for investment¹ in each account may be a card index, on which the balance is shown and an abstract of the provisions as to investments. The index can be arranged alphabetically under the names of the trust accounts, or may be divided according to the size of the balance, whether for investment or not for investment, and the character of the investments allowed. If divided in any of these ways, each division should be arranged alphabetically. When securities are engaged but not paid for, this fact can be noted in pencil on the card. Changes in the balance of principal index are made daily from the balance slips of the trust bookkeepers.

¹ See page 350.

CHAPTER XVII

COMMERCIAL PAPER ¹

JUST as the trust company in its trust department develops a distinct policy regarding investments, so it must develop a policy regarding commercial paper, if it operates a banking department. The trust company of the past, it is true, sometimes conducted its banking department merely for the convenience of clients, and the funds of that department were either redeposited in a commercial bank or else used as a basis for investment, but it has already been shown that neither of these practices harmonizes with modern requirements. What bonds, notes and stocks are to the individual trusts, paper is to the depositor.

WHAT IS COMMERCIAL PAPER?

The banking department receives funds and gives in exchange the right to draw upon it at sight; but it also makes loans and gives the borrower the right to draw at sight—that is to say, it credits him with a “deposit.” In making loans it is always a question whether the institution is acting wisely in granting the loan; in accepting deposits it is always a question how the funds received are to be used so as to yield an income and at the same time to provide sufficiently prompt resources for meeting depositors’ claims if presented. Essentially the method of attaining these ends is to acquire and hold, behind the deposit accounts, claims whose average maturity corresponds roughly to the activity of the general business of the community. Such claims are found in obligations which grow out of the current operations of business and they are usually referred to collectively as “commercial paper.” Commercial paper corresponds roughly to the loan and discount item reported by the ordinary bank

¹ See Chap. VII.

and it should bear a general relation to the amount of demand deposits. It may represent customers' obligations or originate in the "open market."

ESSENTIALS OF COMMERCIAL PAPER

There is really but one "kind" of commercial paper, viz., that which represents the current obligations of the business community. There are, however, many forms of such paper and a clear understanding of their nature is essential to successful banking, even though they may not all be actively traded in by any given institution. Whatever the form of the paper, certain underlying characteristics are indispensable, and the mere form of the paper cannot in any sense make up for the loss or weakening of one of these essentials. These essentials are:

Short-term maturity

Self-liquidating power

Soundness in origin and in purpose of use.

The need of short maturity is clear when it is recalled that the paper is held to protect demand obligations and that it must afford a steady inward stream of funds adequate to meet all calls for outward drain or withdrawals. The word "short," however, requires explanation. Customarily all paper is called short which does not exceed in life the average period of business credit in a community, but this period may be longer or shorter according to conditions in different communities, or nations. Nine months' paper may not be "long" in the Orient or South America, but unduly slow in the United States. Paper up to ninety days' maturity is considered satisfactorily short under present conditions and in some communities paper of longer life is considered an entirely suitable bank asset. The bank of course does not allow its funds to become engaged in paper of uniform maturity, but endeavors to arrange its paper by successive maturities, so that a steady stream of funds will be received from loan settlements.

By the term "self-liquidating" is meant the quality which provides automatically the means of settlement. A loan of \$1,000 to X, who wishes to use it in paying for a pleasure trip, is not self-liquidating because the trip does not result in any direct increase in wealth or

provide means of settling the obligation; but a loan of \$1,000 to Y, who uses it in paying transportation and other charges on a shipment of coal, is self-liquidating because it brings the coal to a point where it can enter into consumption and can thus provide the means of paying off the note at the bank. A substantial percentage of the paper held by the bank should be self-liquidating in this sense, as otherwise renewals will be called for, maturities will not be met, and the bank will be unable to meet the demands of its depositors as presented.

Besides being short and self-liquidating it is essential that paper be soundly made. This does not refer to the legal form of the paper, which may be assumed to be correct, but to the principles governing its making. If paper is made for an uneconomic purpose or in an uneconomic way, it is unsound even if technically "good." It may be collectible for a time but eventually troubles will arise. For example, the well known "renewal acceptances" made during the European war gave on the surface every assurance of short term and self liquidation, but only a little study was needed to show that in most cases they were really bonds or long term obligations skillfully "camouflaged." To hold much paper of this kind would be to make a bid for difficulties, perhaps for suspension of payment. In like manner where paper is being put out for pure financing purposes, one issue taking the place of the preceding and providing the means of settling the earlier loan, the situation betokens bad management of the borrower's business. An example of this sort was afforded some years ago by the so-called "Clafin paper" which had every appearance of compliance with the usual banking standards and was ranked "prime." When the failure of the Clafin Company occurred it was found that the issues of notes had been so made as to supply working capital and that there was little in the way of fluid assets behind them. Some 700 banks were holders of the paper at the time.

TYPES OF PAPER

In some foreign countries various types or forms of commercial paper are standardized and regulated by appropriate legislation. An example of such standardization is furnished by the British "Bills

of Exchange" Act. In the United States there is no such legislation applicable to the banks of the whole country or to the types of paper in which they deal. Prior to the adoption of the Federal Reserve Act there was relatively uniform state legislation regarding negotiability and other essentials of commercial paper, but the preferred form of paper was governed by local custom only and this varied widely. In the Federal Reserve Act power was given to the Federal Reserve Board to define commercial paper in order to establish the eligibility of rediscount offerings. While there is no legal sanction or authority for the regulations of the Board, save as they bear upon the operations of Federal Reserve Banks, the fact that the Reserve Banks hold the banking reserve of the country makes the Board's decisions as to eligibility practically final in establishing desirable standards of paper. These decisions are becoming more and more widely accepted as the system broadens its scope and the number of its members increases.

ACTION OF RESERVE BOARD

The Board's regulations now include the following types of paper officially defined:

A promissory note is defined as an unconditional promise, in writing, signed by the maker, to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to order or to bearer.

A draft or bill of exchange is defined as an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay, in the United States, at a fixed or determinable future time, a sum certain in dollars to the order of a specified person; and a trade acceptance is defined as a draft or bill of exchange drawn by the seller on the purchaser of goods sold and accepted by such purchaser.

Agricultural paper is defined as a negotiable note, draft, or bill of exchange issued or drawn, or the proceeds of which have been or are to be used for agricultural purposes, or the carrying of agricultural products by the growers thereof pending orderly marketing, and the breeding, raising, fattening, or marketing of livestock.

A banker's acceptance is defined as a draft or bill of exchange of which the acceptor is a bank or trust company, or a firm, person, company, or corporation engaged in the business of granting bankers' acceptance credits.¹

Types of promissory note, bill of exchange and trade acceptance in common use are shown herewith.

¹ See page 161.

PROMISSORY NOTE

\$	_____	_____	19
to the order of _____		after date _____	promise to pay
Payable at _____	_____		
Value received _____	_____		
No. _____	Due _____	_____	
_____		Dollars	

BILL OF EXCHANGE

\$ _____ 19 _____

_____ DAYS AFTER _____ PAY TO THE ORDER OF

_____ OURSELVES _____

_____ DOLLARS

VALUE RECEIVED AND CHARGE THE SAME TO OUR ACCOUNT

TO

THE MODERN TRUST COMPANY

NEW YORK, N. Y.

NO. _____

TRADE ACCEPTANCE

No. _____ 19 _____ New York, N. Y., _____ 19 _____ \$ _____
 _____ after _____ pay to the order of OURSELVES

The obligation of the acceptor hereof arises out of the purchase of goods from the drawer, maturity being in conformity with original terms of purchase. The drawee may accept this bill payable at any bank or trust company or bankers office in the United States which he may designate.

Dollars

(Signature of Acceptor)

Place of Business

(Designation of Bank or

(Date of Acceptance)

To

Place of Bank

Signature

Payable at

Location of Bank

Signature

Date

Due

[illegible]

THEORY OF COMMERCIAL PAPER

The theory upon which the Board has proceeded was marked out by the committee in charge of organization of the Reserve system,¹ in the following words:

The conclusion that seems to be necessarily reached is that the Federal Reserve Act distinctly contemplates and provides for the use not only of two-name but also of single name commercial paper. This is seen in the fact that the act in the sections already referred to provides for the rediscounting not only of paper whose proceeds have been used in the particular classes of transactions referred to but also of that whose proceeds are "to be used" in that connection. At one time during the progress of the bill through Congress, the provision was even broadened by the insertion of words including for rediscount such paper as might give rise to funds which "may be used" for the purposes referred to in the act. It is believed, therefore, that Congress clearly and unequivocally intended to recognize under the provisions of the law both classes of paper. This, however, was upon the distinct understanding that such paper, whether it bore one or more names, was not to be admitted to rediscount unless it evidently arose from the classes of transactions referred to or was so clearly for the purpose of providing funds for such transactions as to admit of no doubt.

In the second place, however, it is believed that paper carrying two names bears on the face of it the evidence of a strictly commercial origin which single-name paper never can, without collateral evidence, supply. There is, therefore, a *prima facie* case in favor of two-name paper which does not exist in that of single-name, and the question is suggested how single-name paper when admitted to rediscount as it evidently must be under the terms of the law, shall be prevented from being used as a means to obtain current capital or to furnish the basis for speculative operations. Various methods have been currently suggested, among them the plan of requiring each piece of paper thus presented for rediscount to be accompanied by a certificate on the part of its maker, or of the endorsing bank, or both, that it has originated in connection with a transaction of the permitted kind. Another method that has been put forward is to require such a general certificate on the part of each borrower, insisting that such certificate be made once and for all, or perhaps at periodical intervals. Still another suggested plan is that of employing a form of note which shall incorporate into its own text a statement that it represents funds whose use is desired for a transaction of the permitted class. Of these various suggestions, the last is perhaps the best and there may be no harm in putting it into effect, but neither it nor any of its predecessors would be likely to meet the requirements of the case completely. It is believed that this end can be accomplished only by some process that will give absolute assurance of the use of the funds

¹ Report of Technical Organization Committee, H. Parker Willis, Chairman, 1914, page 76.

advanced by the Reserve Banks in the way contemplated by the law. Clearly, however, the absolute assurance that the particular sum of money advanced by the Banks on rediscounted paper has been used in the way prescribed cannot be obtained in practice, nor is there any use in obtaining it, if there be certainty that an equal sum drawn from the liquid resources of the concern receiving the advance is so applied. The purpose of the Federal Reserve Act is thus fundamentally satisfied if evidence be given that the advances made are made for a commercial purpose as shown by the fact that the person or concern in whose favor they are made is engaged in actual business of the kind referred to and is in a liquid condition. This fact can be ascertained only by a direct audit of the affairs of the concern, repeated as frequently as circumstances require, in order to renew the assurance of liquidity which is regarded as the fundamental and essential test of the good faith of the concern in making application for funds, not to furnish capital for new enterprises or to take the place of capital that has been sunk, but to carry through short period transactions.

POLICY AS TO PAPER

It is thus seen that both single and double name paper have been regarded with favor from the beginning of the movement which has culminated in the present Reserve system, and that the essential requirement in buying or discounting such paper is not its form but the character of the credit behind it. This was clearly brought out by the Board in one of its earlier circulars in which the following requirements were stated:

The Federal Reserve Board proposes to prescribe the following basic principles for the guidance of Federal Reserve Banks and member banks:

No bill shall be admitted to rediscount by Federal Reserve Banks the proceeds of which have been or are to be applied to permanent investment.

Maturities of discounted bills should be well distributed. It is the well-established practice of European Reserve Banks to invest only in obligations maturing within a short time. It is a general rule not to purchase paper having more than 90 days to run. The maturities of these notes and bills are so well distributed as to enable those Banks within a short time to strengthen their hold on the general money market by collecting at maturity or by reinvesting at a higher rate a very substantial proportion of their assets. Acting on this principle, the Federal Reserve Banks should be in a position to liquidate, whenever such a course is necessary, substantially one-third of all their investments within a period of 30 days. Departure from this principle will endanger the safety of the system. It is observance of this principle that affords justification for permitting member banks to count balances with Federal Reserve Banks as the equivalent of cash reserves.

Bills should be essentially self-liquidating. Safety not only requires that

the bills held by the Federal Reserve Banks should be of short and well-distributed maturities, but, in addition, they should be of such character that it is reasonably certain that they can be collected when they mature. They ought to be essentially "self-liquidating," or, in other words, should represent in every case some distinct step or stage in the productive or distributive process — the progression of goods from producer to consumer. The more nearly those steps approach the final consumer the smaller will be the amount involved in each transaction as represented by the bill, and the more automatically self-liquidating will be its character.

OPEN MARKET DEALINGS

Many banks find that they cannot entirely satisfy their requirements by the discounting of paper presented to them by their own customers. The fact that they cannot do so leads them to deal in commercial paper in the open market. This open-market dealing is usually carried on through commercial paper houses or brokers whose function it is to take the paper of borrowers and dispose of it wherever they can find a market. Every such note broker will have a list of offerings which he will send at frequent intervals to those institutions which he believes are likely to have funds to spare. What shall be the policy of the trust company with reference to such paper? If its customers are so numerous and their obligations so good as to call into play the entire available lending power of the company, it will seldom purchase open market paper. From time to time, however, the company will have a slackening demand. Particularly is this true if it be situated in a district where business is at all seasonal. It will then have a "peak" of business demand each year or perhaps twice a year, with low periods intervening. During these periods of small demand it will desire to keep its funds employed in such a way as to get some return and yet to have them available when the local demand reappears. Such an institution may, and frequently does, simply deposit its spare funds at interest with a city bank, but the practice of buying sound commercial paper, including bankers' acceptances, is growing in popularity. The holding of this paper affords an opportunity to diversify the banker's portfolio so as to give him some outside resources upon which to draw in the event of credit stringency developing in his own locality. He may then be called upon to carry his customers beyond the

maturity of their paper and may desire to have some means of getting quick relief. Moreover, in a community where the local paper is not always eligible for rediscount with the Federal Reserve Bank, owing to longer maturities or other conditions, the trust company may think it worth while to provide itself with a portfolio of rediscountable paper by buying outside its own locality. It wishes, of course, to obtain paper which combines a maximum of return with a maximum of safety, and it will favor the paper of large and solvent borrowers, wisely dealt in, and, if possible, eligible at Federal Reserve Banks. Bankers' acceptances have within the past few years become a favorite investment of this kind. There is also a large and steadily increasing volume of single-name paper,—much of it quite as liquid as acceptances or other two-name paper,—which affords an attractive holding. The extent to which a bank should go in the purchase of such paper is always a matter of judgment and depends greatly upon the scope and intensity of the local demand for funds.

DANGERS OF BUYING COMMERCIAL PAPER

There is no absolutely safe rule of conduct in the purchase of commercial paper, nor is there any one type of paper which is far superior to every other. Much has been said in recent years of the acceptance, as if the mere making of paper in acceptance form necessarily implied that it was a superior product or in some way preferable to single-name paper. This can be true only if the credit behind it is superior. During the disorders in business and finance which have followed the European War it has often appeared that the acceptance was being used to float obligations anything but liquid. Bankers' acceptances have often amounted to nothing more than finance bills, while trade acceptances have been made for the purpose of putting on the market what were little else than collateral loans protected by stocks of unsold goods, or long-term and slow accounts embodied in paper form. There has been a great volume of such slow and rather questionable paper masquerading as acceptances, and the effect of these flotations has been to make buyers of paper look more carefully than ever to the credit behind their holdings.

This has given an impetus to the study of credit from a scientific standpoint and to the practice of requiring and analyzing complete and careful statements of condition. It is probable in the future that much less will be heard about the merits of two-name paper or the advantages of acceptances, and that much more stress will be laid upon the liquidity of paper as tested by sound credit standards. It is desirable whenever possible that the form of paper obligations indicate the credit or liquidating power which underlies such obligations.

THE BEST FORM OF PAPER

It follows that the best form of commercial paper is that which, in keeping with fundamental principles, embodies the credit of a transaction the proceeds of which assure the liquidation of the obligation. What is most important to know is that the paper represents a bona-fide transaction in goods which have been sold or are saleable to an established and specific consumer demand within the period of credit. Any paper that satisfies this requirement is sound commercial paper. John S. Jenks, of Philadelphia, has demonstrated that commercial paper can, in a perfectly legal manner, embody the credit arising out of a transfer of merchandise from seller to buyer moving to certain demand, together with a description of the transaction and a certification of the facts as parts of the instrument. Jenks' Bill, therefore, carries a certificate furnishing assurance as to the character of the transaction involved. Carefully developed paper of this kind, immune to legal attack and based upon commodities of a tested sort, represents the highest type of liquid asset.

A bill in which is embodied the credit arising out of a definite transaction, as well as the facts which establish the liquidity of that credit, are set forth on the following pages.

Boston, Mass. March 17, 1920.

NINETY DAYS- *after date* *promise to pay to*
Merchants National Bank, Boston

TEN HUNDRED EIGHTY FOUR and 29/100- *Dollars*
Merchants National Bank, Boston

the invoice of GEORGE H. PAINE - *number 122, dated*
March 15, 1920.

Without deduction, Value received.
Thomas G. Plant Co.
per F. H. K. Knight, Treas.

NOTE: 22, 1920. IF YOU IN 10 DAYS
THE MAKER OF THE ATTACHED NOTE AND
WE CO. - - - DISCOUNT
1920 WITH NATIONAL BANK FOR AT LEAST
NINETY DAYS - - - 61
AND INVOICE THEN ALL BY RIGHT TO
IT IN SAID TRANSACTION ENDS. IN THE
NEGOTIATING THE NOTE WITH ITS OWN
TEND OF THE INSOLVENCY OF BOTH THE
USUALLY AN INDORSEER'S LIABILITY TO ANY
USUALLY TO SAID BANK AND WAIVE

I HEREBY CERTIFY THAT I HAVE RECEIVED AN INVOICE FROM
GEORGE H. PAINE - - - WHICH
IS AFFIRMED CORRECT IN EVERY PARTICULAR AND A DUPLICATE
OF HIS ORIGINAL INVOICE, NO. 122, DATED MARCH 15, 1920.

WE HEREBY CERTIFY THAT WE HAVE RECEIVED AN INVOICE WHICH
THOMAS G. PLANT CO. - - - AFFIRM IS
CORRECT IN EVERY PARTICULAR AND A DUPLICATE OF THE ORIGINAL
GEORGE H. PAINE - - - INVOICE NO. 122,
DATED MARCH 15th, 1920.

The Merchants National Bank of Boston
Cashier

KIRKBRIDE ADMINISTRATIVE CO., 7 WALL ST., NEW YORK CITY, N. Y. - - -
H. PAINE, PHILADELPHIA, PA. - - - ON OR
20 SIMULTANEOUSLY WITH THE DISCOUNTING OF THE FOREGOING NOTE AND OUT OF THE PROCEEDS THEREOF,
*TEN HUNDRED TWENTY FOUR and 61/100- *Dollars**
WHICH SHALL NOT IMPAIR THE NEGOTIABILITY OF SAID NOTE

Thomas G. Plant Co.
per F. H. K. Knight, Treas.

JENKS BILL



THE MERCHANTS NATIONAL BANK
OF BOSTON, MASS.
Cashier

INVOICE PAID BY JENES BILL

EXECUTIVE OFFICES
SUITE, 235 LAND TITLE BUILDING
PHILA., PA.

GEORGE H. PAINE

5033-39 PORTICO STREET
GERMANTOWN, PA.



SOLD TO Thos. G. Plant Co.,
Boston, Mass.

March 15, 1920.

Terms Net. 30 Days
2% 10 Days

ORDER NO.	Below	CUSTOMERS NO.	ACCT NO.	122	SHIPPED VIA.	M. & M. T. Co.
#6363,	100 Doz. Kid	"Matthews"	3797 ft.	1.13	\$4290.61	
	Case #172	Stuffing Charges		.10	379.70	\$4670.31
#6358,	50 Doz. Kid	"Matthews"	3147½ ft.	..	3934.38	
	Case #177	Stuffing Charges		.10	314.75	4249.13
#6364,	86 Doz. Kid	"Matthews"	3304½ ft.	1.13	3734.87	
	Case #171	Stuffing Charges		.10	330.48	4064.85
						\$12984.29

This kid has been passed by *George H. Paine* for shoes
which must be in his judgement of "SHOE-SOAP" quality.
All who use this approval or the name "SHOE-SOAP" must
comply with all his conditions.

DUPLICATE

WE HEREBY GUARANTEE THAT THE MERCHANDISE COVERED BY THIS INVOICE HAS BEEN PRODUCED OR MANUFACTURED IN ACCORDANCE WITH THE PROVISIONS
CHILD LABOR ACT OF SEPTEMBER 1ST, 1916.

BACK OF INVOICE PAID BY JENKS BILL

Merged in me are highly valued Properties, viz:
a reputation and good-will which are not for sale
and are never sold, but which, when authorized by
me, are linked to leather and other products by
my own name *George H. Paine*, and by the names
"PERFIT", "SHOE-SOAP", "SERVICE", "ECONOMY", and "GLAZED"
to identify different grades.

These products are sold entirely separate
from these names and properties which no one
has the right to use in any way or for any pur-
pose not definitely authorized by me.

The marks, labels, wrappers, packages, boxes
and containers of all descriptions shipped with
this leather are not sold but remain my property, and
are not to be used except as I specifically direct.

George H. Paine

BANK REMITTANCE PURSUANT TO THOMAS G. PLANT & COMPANY'S ORDER ON BOTTOM OF JENKS BILL

THE MERCHANTS NATIONAL BANK OF BOSTON No. 11586
BOSTON, MASS. MAR 17 1920 19__

PAY TO THE ORDER OF E. B. Kirkbride, Administrative Co. \$ 127.24 ⁶¹

EXACTLY TWELVE THOUSAND SEVEN HUNDRED TWENTY FOUR ⁶¹/₁₀₀ DOLLARS DOLLARS

TO THE CASHIER OF
THE MECHANICS AND METALS
1-4 NATIONAL BANK
NEW YORK, N. Y.


ASST. CASHIER,

THIS IS PAID TO ORDER

CHAPTER XVIII

SAFE DEPOSIT DEPARTMENT

INTRODUCTION

THE necessity of making adequate provision for their own securities has resulted in the establishment by many trust companies of departments for safe renters, both to secure a direct return from the expenditure occasioned by the erection of vaults for the companies' own use and to add to the convenience of their customers.

In the larger cities one finds separate companies doing only a safe deposit business, as well as safe deposit departments connected with banks and trust companies. In smaller places, separate organizations are not often found. The company assumes full responsibility for the safe-keeping of valuables, and the small fee which is paid for the service covers both storage charges and a practical guarantee against theft or other loss.

Where land is valuable, the safe deposit vaults are often in the basement of the building. They may also be more than one story in height, the basement vaults being devoted to the storage of bulky packages, and those on the main banking floor to the renting of safe deposit boxes. Each box—which is usually made of heavy japanned tin or light steel—fits into a compartment just large enough to contain it. The case in which these boxes are kept is made of steel and each door is fitted with a lock, which can be opened only by using two different keys. One key is retained by the company while the other is held by the safe renter. As no duplicate is kept of the renter's key, he should always be impressed with the necessity of keeping it safely, as its loss will require cutting open the lock at his expense. Access to the box can be secured only by the renter or his duly authorized representative in conjunction with a representative of the company. Boxes are made of different sizes to suit the needs of customers. They are usually about 21" long,

with varying height and width. The smallest boxes are about $1\frac{1}{4}$ " high by $4\frac{1}{2}$ " wide, inside measurements. The rentals vary according to the size of the box or safe, the smallest sizes costing but a few dollars a year. Larger sizes are provided for the use of bankers and corporations, the rental of which may amount to several hundred dollars per annum.

There should be an ample force to guard the vaults both day and night, and during business hours to attend to the wants of customers. It is customary to have a locked grill door at the entrance of the safe deposit department, at which a watchman is stationed who admits only those entitled to enter. In addition, the door can be fitted with an electric locking attachment operated from the desks of the employees who are stationed at various points. These employees should always be of good address, courteous and obliging, and of undoubted honesty. They should, of course, be under bonds. While the vaults are open, the department should never be left without an adequate force of attendants.

The safe deposit department should be furnished with ample facilities for the customers' convenience. There should be rooms for committee and other meetings, as well as individual desks properly protected, or small private rooms for coupon cutting and examination of securities. There are usually special apartments for ladies. Stationery, envelopes, coupon-cutters, scissors, rubber bands, and other conveniences are provided for the use of customers. In many companies the waiting rooms attached to the safe deposit department are attractively furnished and are supplied with newspapers, periodicals, stock sheets, and sometimes with a ticker and telephone service.

The safe deposit vaults are usually open to the general public only during banking hours unless it is necessary to open a trifle earlier and close a little later on account of the bankers, brokers, and other customers whose boxes must be in their offices during the same business hours.

A record is often kept of all persons entering and leaving the department, and of the number of the box visited. In times of panic or great stock market activity, it has sometimes been found impossible to keep such a record without unnecessarily delaying the customers.

As soon as the box is returned to its place, an attendant examines the desk or room occupied by the customer, to see if anything has inadvertently been left and to prepare it for the next occupant. This is the more necessary when, as sometimes happens, the forgotten article is not a cane or an umbrella but a thousand-dollar bond. By means of the record of visitors and examination of desks, it is almost always possible to locate the owner of lost property. It helps, too, to refute the occasional charge that a valuable paper was forgotten or lost during a visit to the department, a charge which usually ends in the document being found in its proper place. The attendants should never consent to take care of open boxes while their owners temporarily absent themselves, but should always insist on the boxes being returned to the vault, even if they are taken out again in a few minutes. The safe renter should always see his box opened and closed, and while out of the vault it should be constantly under his eye.

Owing to the great value of the contents of public safe deposit vaults, their management must be such as to provide every possible precaution to prevent loss. When legal questions arise as to rights of and liability to box renters, action should be taken under advice of counsel. Access should never be permitted except to the box renter, his deputy or legal representative. In the case of corporations, properly authenticated authority must first be presented and, except to look for a will, no access to the box of a deceased renter should be permitted until the executor or administrator has presented a proper certificate of his appointment. When the ownership of property contained in a safe deposit box is in dispute, prompt steps should always be taken, by legal process if necessary, to determine the rightful owner.

If two or more persons must appear together in order to obtain access to a box, a label with the number so required should be attached to the front of the box. The company assumes such full responsibility in regard to these details that great care must be taken to prevent errors.

In addition to securities, which form the largest part of their contents, safe deposit boxes are made the receptacle of all sorts of objects having intrinsic, sentimental, or other value — from a lace handker-

chief to the ashes of a deceased relative. During the McKinley-Bryan campaign, large quantities of gold were hoarded in safe deposit boxes, and it is not uncommon after the death of a safe renter to find in his box gold, bank notes, or bonds bearing coupons long since overdue.

Among the most curious visitors to the department are those with whom the accumulation of wealth has become a mania and who come daily to see and finger their securities. Many persons deposit their wills in their safe deposit boxes; indeed, this is the place where such papers are usually first sought for.

Special vaults are often provided in which boxes containing title papers and other matter of more bulk but less value than stocks, bonds, and jewelry, can be left for safe-keeping and at the same time be easily accessible. In other vaults, trunks and cases containing silverware, books, works of art, and other personal property are stored.

Engravers and publishers often place their steel, copper, or electrotype plates in safe deposit vaults when their own buildings do not afford the needed protection, and manufacturers avail themselves of this protection for models, patterns, and assets of all sorts which are liable to damage or loss through fire or theft.

Some safe deposit companies also issue certificates of deposit covering securities left in their hands for safe-keeping. An engraved certificate reciting the terms of the deposit and enumerating the items received is given the owner, and the securities are only deliverable on the return of the certificate. If an individual owns a single bond, the cost of a certificate of deposit is less than the rent of a box, and in case the security is needed it can be procured by express or registered mail through the return of the certificate properly indorsed. In the case of coupon bonds, the safe deposit company may also agree to cut the coupons as they mature, and hold them ready for delivery. The charges for such deposits of securities are based on the character of the property. Coupon bonds and other securities transferable by delivery are taken at a higher rate than stocks and registered securities. Gold and silver coin and bullion, jewelry and precious stones, are charged for according to value and space occupied.

As the business of the safe deposit department is simple, its books and records need not be complicated. The card index is well suited for most of its records, although sometimes large and handsomely bound books are preferred, as they are usually in the view of customers and present a more attractive appearance, and as the employees of the department are generally not pressed for time. It is, however, best to have the simplest form of accounts in order to obtain the most accurate results.

All cash receipts should be paid to the receiving teller, and rebates should be paid out by the paying teller. If more convenient, the trust department receiving teller or the note clerk can act as the cashier of the safe deposit department. The general principle that records and cash should not be in the hands of the same individuals should, however, be observed.

The system of records here described is that of the safe deposit department of a trust company. When safe deposit vaults are run as an independent business, a set of general books is also required.

One system of records is used, its details being adapted to the somewhat differing requirements of the two main divisions of the business,—the renting of safes and deposit of valuables.

In companies where securities are received for safe-keeping and certificates of deposit are issued against them, the same forms are used as in the case of the storage of packages containing valuables, with necessary verbal changes. As such deposits are not often received, trust companies usually preferring to encourage the owners of securities to open attorney accounts in the trust department, it does not seem necessary to go into further details in regard to them.

RENTING OF SAFES

As soon as the identity of the customer is satisfactorily established and a decision has been made as to the size of the safe desired, the rent is paid and a receipt is issued in which are stated the limitations of liability assumed and the rules subject to which the safe is rented. The receipts are numbered consecutively and bound in books with stubs attached, or else with alternating thin leaves on which a carbon copy is taken.

In some companies it is the practice to issue this receipt in the form of a contract or lease. The actual wording of this, as of all other safe deposit forms, should be passed on by counsel, before

RECEIPT FOR RENT OF SAFE.—[Front]

THE MODERN TRUST COMPANY

No. _____ 19__

RECEIVED from _____

_____ Dollars for rent of Safe

No. _____ in the Vaults of this Company, from _____ 19__ to _____ 19__ , during which term, subject to the conditions and regulations indorsed hereon, it shall be the property of the lessee. The liability of the Company, by reason of the letting, is limited to the exercise of their accustomed diligence to prevent the opening of said Safe by any person other than the lessee or his duly authorized representative, and is assumed upon the express agreement that such opening shall not be inferred from proof of partial or total loss of the contents.

\$ _____

Safe Deposit Supt.

[Back]

1. All rents of Safes are payable in advance. If the Lessee of a Safe, at the expiration of any term, or upon an earlier termination as hereinafter provided, shall not renew such renting, and shall fail to give up possession of the Safe, the Company shall have the right, at the end of fifteen days after mailing notice of their intended action to the address of the Renter, or after direct service thereof, to forcibly open the Safe of such Renter, in the presence of an officer of the Company and of one other witness, and to remove the contents thereof, and to hold and retain the same on special deposit, — subject to the payment of all rent that may be unpaid, and to a charge for the use of the Safe after the ending of the term, proportioned to the annual rent, and of all expense incurred in opening the Safe and changing its lock and keys, and also for the safe keeping of the contents after their removal from the Safe.
2. The Company reserves a right to terminate at any time the renting and possession of the Safe, upon its notice, mailed to the address of, or delivered to, the Renter, or to the Deputy, or to any other legal representative, and upon the surrender of the keys of the Safe and the removal of its contents, a due proportion of the rent received will be refunded.
3. Access shall be had to the Vault daily from 9 o'clock A.M. to 4 o'clock P.M., except on Sundays and legal holidays and on Saturdays after 12 o'clock noon.
4. No person other than the Renter, or approved Deputy, legal representative (in case of the death, incapacity, or other disability of the Renter), shall have access to the Safe, excepting as herein expressly stipulated.
5. The Renter or proper representative will not be permitted to enter the Vault, unless in presence of a Vault clerk, and only two Renters will be allowed therein at the same time, unless the Company may see fit to admit more.
6. Each Safe will be furnished with a new lock upon every change of its renting, and on its surrender the keys must be returned. The cost of replacing a lost key will be paid at once by the Renter.
7. Boxes must not be opened, or papers examined, within the Vault, but in the rooms provided for such purpose.

adoption. Most of the records of the department are, for convenience, kept on cards 4"×6" in size.

At the time a safe is rented, a receipt and identification card is signed by the customer, acknowledging that he has received the keys for the box and the receipt for rental, and agreeing to its terms and

conditions. At the bottom of the card is a brief statement which is signed by the renter when the box is surrendered and the contents have been removed.

The other side of the card is devoted to the safe number, the name and address, and the description of the renter which is recorded for

RECEIPT AND IDENTIFICATION.—[Front]

Date, _____ 19 —
Received from THE MODERN TRUST COMPANY a receipt for rent of a Safe numbered _____, which is leased by _____ subject to all the rules and regulations of said Company as indorsed on said receipt, and to all such other reasonable rules and regulations as may hereafter be adopted.
_____ also acknowledge having received _____ keys for said Safe.
WITNESS: _____
_____ hereby surrender Safe No. _____ and certify that _____ have removed contents of same. _____

[Back]

Name, _____	Safe No. _____
Address, _____	
Business, _____	
Place of birth, _____	Date of birth, _____ Password, _____
Name of father, _____	Name of mother, _____
Name, _____	
Address, _____	
Business, _____	
Place of birth, _____	Date of birth, _____ Password, _____
Name of father, _____	Name of mother, _____

purposes of identification. It is better to note fixed facts rather than possibly changing personal characteristics such as color of hair, weight, etc. The amount of information taken varies greatly in different companies. The place and date of birth and names of parents, in addition to the customer's name, address, and occupation,

are probably sufficient. A password is still sometimes used as a further means of identification.

The identification side of the card is printed so that the description of two renters can be placed on it, as many safes are rented in

APPOINTMENT AND IDENTIFICATION OF DEPUTY.—[Front]

Appointment of _____ Deputy.	
Safe No. _____	Date, _____ 19 —
_____ hereby constitute and appoint	

to be _____ Deput_____, with power to open and have access to Safe No. _____	
rented by _____ (or any other Safe that _____ may hereafter	
rent), in the Safe Deposit Vaults of THE MODERN TRUST COMPANY, and to	
dispose of its contents as freely as _____ could do _____, until _____ revoke this	
authority in writing.	
WITNESS :	
_____	_____ L.S.
_____	_____ L.S.
Date, _____	
Above appointment of Deputy is hereby revoked.	

[Back]

Description of _____ Deputy.	
Address, _____	
Business, _____	
Place of birth, _____	Date of birth, _____
Name of father, _____	Name of mother, _____
Password, _____	Signature of Deputy, _____
WITNESS :	

joint names. The receipt and identification cards are white in color and are filed alphabetically by the renters' names. In the case of

two individuals renting a box as joint tenants, special forms are sometimes used specifying the rights of both or of the survivor to have access to or to surrender the box and to appoint deputies. These facts can also be included in the rules printed on the receipt or contract issued when the safe is rented.

The card showing the appointment and identification of a deputy is used when the renter desires to give another person the right of access to his safe. One side of the card gives the form of appointment, signed by the renter, which authorizes the deputy to open and have access to the safe and to dispose of its contents until the authority is revoked in writing. Below is a space containing a revocation clause. The other side of the card gives the description and signature of the deputy, the data taken being the same as in the case of the renter.

This card should differ in color from the renter's receipt and identification card already described, and should be filed directly back of it. This index forms a complete alphabetical record of safe renters and their deputies.

Authority to enter a box should always be general and unqualified. Owing to its liability in case of error, the trust company should decline to accept orders authorizing access to procure a certain paper or security. The right of the deputy to have access to the box ends on the death of the safe renter.

Cash transactions are recorded on ledger cards bearing the name and address of the renter, number of the safe, date rented, rate and term. The ordinary ledger ruling is used, the card being wide enough to repeat it. There are columns for date and amount of rental due, and the date and amount of each payment. The cards are white, 4"×6", each has a tab showing the month of expiration so that each month's bills may be made out without handling any but the cards for that period. The cards are filed numerically by safe numbers, and form an index of rented safes. The case in which all keys for unrented safes are kept takes the place of an index of safes available for renting.

Bills for safe rent should be mailed long enough in advance of the date of expiration to enable the customer to renew for another year or to give notice that the safe will be surrendered. The bill specifies

the number of the safe, the term covered, and the amount due, with the added statement that the letting is subject to all the terms, conditions, provisions, and limitations of liability provided for in the original receipt.

At the same time that the bookkeeper prepares the bill he fills out a credit slip with the same data: name and address, number of safe, term, date, and amount due. These credit slips are passed to the receiving teller or other officer to whom the rents are payable. The slips are printed on white cards, and are filed alphabetically by names. When the bill is presented for payment, the credit slip is taken from the index and compared with the bill. It is then stamped "paid" and is passed through as the teller's voucher from which all bookkeeping entries are made, the cash being placed in

CORPORATE RESOLUTION GIVING ACCESS TO INDIVIDUAL

Received 19 _____	To THE MODERN TRUST COMPANY:—	
	At a meeting of the Board of _____	
	of the _____	
	held at _____ on the _____ day of _____, 19 _____,	
	the following resolution was duly adopted:	
	RESOLVED, that _____ be and he is hereby authorized to have access to the Safe (No. _____) in the Vaults of THE MODERN TRUST COMPANY leased to this Company, until this authority is duly revoked, of which written notice shall be given to said Trust Company.	
	(ATTEST)	(SIGNED)
	(SEAL) _____	_____
	<i>Secretary.</i>	<i>President.</i>

the general books to the credit of the safe deposit department and in the books of the department itself to the credit of the safe renter. When rebates are made, a charge slip is prepared in the safe deposit department giving the necessary details, and the cash is paid out by the paying teller.

When a safe is rented by a corporation and, by authority of its board, access is given to an individual, a certified copy of the resolution delegating such power should be required. The trust company should specify the wording for such a resolution and should require

the certified copy to be on a form which it furnishes. A white card 4"×6" can conveniently be used and can be filed behind the renter's receipt and identification card, exactly as in the case of deputies appointed by individual renters.

If the safe is rented by a corporation which by a resolution of its board permits one or more of its officers to have access to its box, a certificate of election, duly executed and attested, should similarly be required and filed whenever there is a change of officers.

Other forms are often used to provide for cases when the customer cannot be present in person. Such forms are based on those already described, and as they provide for special cases do not affect the general plan of organization.¹

DEPOSIT OF VALUABLES

Immediately on receipt of the trunk, box, or parcel received for storage, the package should be sealed so that it cannot be opened without breaking the seal. Exceptions to this rule must be made in the case of deposits to which frequent access is desired.

The certificate of deposit is bound and numbered in the same way as the original receipt for the rent of a safe. It specifies the nature of the deposit, its value, the term for which deposited, and the amount paid. The certificate also gives the conditions and regulations subject to which the deposit is received, including a statement on the part of the customer that it contains no certificates of stock, registered or coupon bonds, money, jewelry, or precious stones. On the certificate is also a form of receipt to be signed by the customer relieving the company of all liability on surrender of the deposit.

As in the case of safe renting, a receipt and identification card is signed by the depositor, acknowledging that he has received the certificate and agreeing to the terms on which it is issued. A form of release and receipt for the deposit is also printed on the card, for use in case of the loss or non-production of the certificate at the time the deposit is withdrawn.

¹ See Proceedings of Trust Company Section, American Bankers' Association, 1904: Report of Special Committee on the Classification of Legal Decisions relating to Safe Deposit Companies; Duty and Liability to Box Holders, and a compilation of the Rules and Forms of Typical Companies.

The other side of the card contains the description of the depositor. The same form is used as in the case of safe renters, except that the certificate number is substituted for the safe number. The cards are 4"×6" in size, are filed alphabetically, and are of a buff color to distinguish them from the cards representing safes.

The appointment and identification of deputy card is similar to that already described, except that it is of a different color and

CERTIFICATE OF DEPOSIT.—[Front]

This certificate must be presented upon the withdrawal of the deposit or any part thereof.	THE MODERN TRUST COMPANY	
	No. _____	Date, _____ 19 ____
	This is to certify that _____	
	has deposited with THE MODERN TRUST COMPANY for safe keeping	
	said to contain _____ valued at \$ _____	
for which the sum of \$ _____ has been paid to this Company.		
In consideration whereof the said deposit is to be safely kept by this Company, subject to the conditions and regulations indorsed hereon, for the period of _____, and on the expiration thereof, or sooner if demanded by said depositor, it shall be returned to _____ in good order upon the surrender of this certificate and identification of the depositor if required.		
<i>Safe Deposit Supt.</i>		

[Back]

<ol style="list-style-type: none"> 1. It is agreed by the depositor that no certificates of stock, registered or coupon bonds, money, jewellery, or precious stones are contained in this deposit. 2. In case of loss of deposit, the option is reserved to the Company of either paying for it, at the valuation specified by the depositor, or of replacing it in kind or amount. 3. This certificate is not transferable except by assignment indorsed hereon and approved by the Company. 4. If the whole or any part of this deposit shall be withdrawn before the expiration of the specified period, a due proportion of the charge shall be returned, and if continued longer it shall be deemed a renewal of the deposit on the same terms, for which a like rate shall be chargeable. 5. This certificate shall be presented upon the withdrawal of the deposit or any part thereof. 	Date, _____ 19 ____ Received from THE MODERN TRUST COMPANY the within mentioned deposit, and _____ hereby release said Company from all liability therefor.
---	--

applies to a certificate of deposit instead of to a safe. The authority given is general and authorizes the deputy to open and have access

to and dispose of the contents of the package covered by the certificate until the power is revoked in writing. It is filed immediately behind the depositor's card.

The ledger card is of buff color and is in all other respects like the safe rental ledger card, except that the number of the deposit replaces the safe number. The cards are filed numerically and have tabs showing the month of expiration.

RECEIPT AND IDENTIFICATION FOR VALUABLES.—[Front]

Date, _____, 19 —
_____ hereby acknowledge the receipt of Certificate of Deposit No. _____ for _____ deposited by _____ in the Storage Vaults of THE MODERN TRUST COMPANY, valued at \$ _____ and containing neither certificates of stock, registered or coupon bonds, money, jewellery, or precious stones, and hereby agree to the rules and regulations of THE MODERN TRUST COMPANY in force at this date and such reasonable rules and regulations as may be hereafter adopted.
Date, _____, 19 —
Received from THE MODERN TRUST COMPANY the above mentioned deposit and _____ hereby release said Company from all liability therefor.

[Back]

Name, _____	Certificate No. _____
Address, _____	
Business, _____	
Place of birth, _____	Date of birth, _____ Password, _____
Name of father, _____	Name of mother, _____
Name, _____	
Address, _____	
Business, _____	
Place of birth, _____	Date of birth, _____ Password, _____
Name of father, _____	Name of mother, _____

The bills specify that they are for the renewal, until a given date, of the deposit of valuables covered by a certain certificate the number of which is given.

Credit slips are used like those already described, and in the same way. They are on buff cards and bear the number of the certificate instead of the safe number.

For purposes of identification a stout linen or manila tag should be attached to each package and bear the number and date of the certificate and name of the depositor.

As a matter of convenience to customers some companies now have motor delivery services of their own. Where this is not done, it is well to make arrangements with a local express company to call for and deliver valuables at a fixed scale of charges. A general agreement should be made between the trust company and the express company, defining the liability of each, and a written order should always be taken from the customer. A printed form should be used which contains an order on the customer to deliver to the express company the packages described. This is signed by its representative and given to the owner on receipt of the goods.

When valuables are delivered to their owners by the express company, a similar receipt is taken from the owner or his representative and is retained by the express company, which has previously receipted for the packages on receiving them from the trust company.

GENERAL BOOKS

The record of persons entering the department shows the date, name, number of safe or deposit to which access is had, and, if possible, the desk or room occupied. Such a record is valuable, and should be accurately kept.

All safe deposit departments use one or more books in which a record is kept of rentals, renewals, and surrenders. A single book can be made to combine a cash book and a record of safes rented and surrendered, and valuables deposited and withdrawn. It contains columns for the date and name of customer, followed by sections covering rentals and renewals, surrenders, and a section in

THE MODERN TRUST COMPANY

Safe Deposit Department

Comparative Monthly Report for _____

SAFES	No.	Rental		
Safes rented as per last report				
Add Safes rented during month				
Total				
Less Safes surrendered during month				
Total Safes rented this date				
" " " one year ago				
Increase				
Decrease				
CERTIFICATES OF DEPOSIT	No.	Charges		
Certificates outstanding as per last report				
Add Certificates issued during month				
Total				
Less Certificates cancelled during month				
Total Certificates outstanding this date				
" " " one year ago				
Increase				
Decrease				
CASH				
Received from Safes rented and renewed (net)				
" " Certificates of Deposit issued				
and renewed (net)				
Total for month				

which the bookkeeper notes in the proper columns that the other entries resulting from each transaction have been made.

The "rentals and renewals" section contains subsections covering both safes and deposits. The former shows the number of the safe, whether a rental or renewal, the rate and period on which it is based in months, the date from which rental commences, and the amount paid. The section covering deposits is exactly similar except that "charges from" replaces "rental from."

The "surrenders" section is similarly divided, showing the safe number, rate, and period on which the rate is based, and amount of rebate, if any; deposit number, rate, period and rebate.

The remaining section shows that the transaction has been entered on the renters' or depositors' index, and the ledger card. The last column is for the controller's initials after the entries have been made and the bookkeeper has initialled the proper columns.

Each rental or deposit of valuables is entered from the stub of the receipt or certificate book. Cash entries are recorded from the credit or charge slips. The book is closed at convenient periods and the data thus obtained are used as the basis for comparative monthly reports. These reports show the number and value of safes rented, renewed, and surrendered, the value of certificates of deposit issued and cancelled, and the total business of the department, with the figures for the corresponding period of the previous year and the resulting increase or decrease.

CHAPTER XIX

SAVINGS FUND DEPARTMENT

IN the large cities of the East, where savings banks have existed for many years, few trust companies have a savings department. In the West, and, especially in smaller towns, trust companies usually take savings deposits. Sometimes, as in the Illinois Trust and Savings Bank of Chicago, the savings department is the most important

<div style="border: 1px solid black; border-radius: 50%; width: 20px; height: 20px; margin: 0 auto; line-height: 20px;">1</div> <div style="text-align: center; margin-top: 10px;">459401</div>	<p>I hereby signify my assent to the regulations of the Savings Department of The Modern Trust Company</p>
<p>Sign here</p>	
<p>Address,</p>	
<p>Occupation</p>	<p>Date of Birth</p>
<p>Parents' names</p>	<p>Married</p>
<p>Name of wife or husband</p>	<p>Unmarried</p>
<div style="border: 1px solid black; width: 40px; height: 40px; margin: 0 auto; border-radius: 50%;"></div>	<p>Widowed</p>
<p>Birth Place</p>	<p>Date</p>
<p>Colored</p>	
<p><small>LIBRARY BUREAU</small></p>	
<p><small>PATENTED MAY 26, 1897.</small></p>	

branch of the company's business. In most trust companies, however, the savings deposits are not as large as the deposits subject to check.

For the care of savings deposits it is usually well to have a separate savings department. This department should always be clearly

indicated by signs, so as to prevent confusion between the customers of the banking and savings departments. In the savings department windows are provided for "New Accounts," "Receipt of Deposits," and "Withdrawals." The paying teller of the banking department may attend to the payment of withdrawals.

Accounts are opened at the "New Accounts" window, where a specimen of the depositor's signature is taken on an individual depositor's signature card, and in case of joint depositors, on a joint account signature card, with other information which will serve as a means of future identification. When two people desire to open a joint account, they are requested to sign a contract on the back of

WITHDRAWAL NOTICE

\$-----	Payable,-----
	-----19--
<p>To THE MODERN TRUST COMPANY, SAVINGS FUND DEPARTMENT.</p> <p>I hereby give ten days' notice for the withdrawal of</p> <p style="text-align: right;">----- Dollars,</p> <p>according to the rules.</p> <p>Book No.-----</p> <p>Name,-----</p> <p style="text-align: center;">Residence,-----</p> <p style="text-align: center;">Money due on a holiday paid the preceding day.</p> <p>This notice will be cancelled if money is not withdrawn within 30 days from date.</p>	

the joint account signature card. If more than two open the account they are treated as an unincorporated organization. The cards are filed numerically. At the time the signature card is filled in a depositor's index card is made out, showing the name, address and the number of the account. The depositors' index cards are filed alphabetically according to the names of the depositors. When an organization, incorporated or unincorporated, desires to open an account, authority for opening the account and the designation of

certain individuals to act for it, are filed together with a copy of its by-laws. These papers are filed alphabetically.

Cards of closed accounts are kept as a separate index. The deposit book bears the number of the account and the name of the depositor on the cover, and contains the rules and regulations. The cash pages have date columns and cash columns. The depositor is required to present the book each time a deposit or withdrawal is made.

It is a common although not a universal practice to restrict the amount which can be deposited in a savings account each year, and to fix a maximum limit for the account. When a deposit is made, a deposit slip is filled out, if possible by the depositor, with the number of the account, name and address of the depositor, date, and amount of deposit.

The book with the deposit and slip is passed to the savings department receiving teller who proves the deposit with the slip, initials the slip, enters the deposit in the book, and passes the book to the pass book control clerk. This clerk enters the number of the book and the amount of deposit on an adding machine which has two sets of numbers, each with several banks of keys, and then after verification by asking the name of the depositor and the amount of the deposit, passes the book out to the customer. The receiving teller lists the amounts of the deposit slips on an adding machine as many times as desirable or possible during the day, taking a sub-total each time before passing the deposit slips to the bookkeepers. At the end of the day the receiving teller takes a grand total which must settle with the cash received and the grand total of receipts shown by the pass book control clerk. The receiving teller then fills out his daily proof sheet, signs it, and passes it to the paying teller who checks it, signs it and sends it to the general ledger bookkeeper.

Savings accounts are not subject to check. The savings department either requires, or reserves the right to require, notice before withdrawals are made. When such notice is given, the amount to be withdrawn and other particulars are written on a card. These cards are filed by payment dates and account numbers, and are destroyed by the withdrawal clerk after payment has been made. When the depositor comes to get the money, he fills out a withdrawal

slip with the date, account number, name and address of the depositor, and amount received.

The paying teller compares the signature on the withdrawal slip with the specimen on file, satisfies himself as to the identity of the depositor and initials the slip to show this fact. On the left hand page of the pass book the transaction is entered in figures. On the right hand page the deposit or withdrawal is written out in words. The paying teller then passes the book with the withdrawal slip to the pass book control clerk, who enters the number of the book

WITHDRAWAL SLIP		Book No. _____						
<p>THE NUMBER IS ON THE COVER OF YOUR BOOK</p> <p>Write the amount you wish to draw out in PLAIN FIGURES. Dollars under the word "Dollars," Cents under the word "Cents."</p>		<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 50%; padding: 2px;">DOLLARS</th> <th style="width: 50%; padding: 2px;">CENTS</th> </tr> <tr> <td style="height: 40px; vertical-align: bottom; padding: 2px;">\$</td> <td style="padding: 2px;"></td> </tr> </table>	DOLLARS	CENTS	\$			
DOLLARS	CENTS							
\$								
<p>BRING YOUR BOOK</p> <p>WE DECLINE TO PAY UNLESS YOU DO.</p> <p>WRITE HERE THE AMOUNT VERY PLAINLY IN WORDS.</p> <p>ALWAYS SIGN AS YOU DID AT FIRST.</p>	<p>_____ 19__</p> <p>RECEIVED OF</p> <p>THE MODERN TRUST COMPANY</p> <p>SAVINGS FUND DEPARTMENT</p> <p>_____ DOLLARS</p> <p>SIGNATURE _____</p> <p>PRESENT ADDRESS _____</p>							
<table style="width: 100%;"> <tr> <td style="width: 33%; text-align: center;">EXAMINED BY</td> <td style="width: 33%; text-align: center;">PAID BY</td> <td style="width: 33%; text-align: center;">ENTERED BY</td> </tr> <tr> <td style="height: 20px;"></td> <td></td> <td></td> </tr> </table>			EXAMINED BY	PAID BY	ENTERED BY			
EXAMINED BY	PAID BY	ENTERED BY						

and the amount on the adding machine. After asking the customer's name and the amount of the withdrawal, the cash and the pass book are handed out. If the entire balance is withdrawn the pass book control clerk keeps the book. The paying teller several times during the day takes the total of the amounts of the withdrawal slips, and then turns them over to the bookkeepers. At the end of the day the teller takes a grand total of the withdrawals and then makes up his daily proof sheet. The payments must prove with the pass book control clerk's total of withdrawals. After proving, the teller

There is a pass book control clerk located between each paying and receiving teller. This grouping is maintained where there are several tellers. The deposit and withdrawal slips, as they are passed back to the bookkeepers, are sorted in numerical order for each bookkeeper and he enters the items by machine on the depositor's ledger sheet. The depositor's ledger sheet is $7\frac{7}{8}$ inches in length,

[illegible]

8 $\frac{7}{8}$ inches broad, and is ruled on both sides with columns for the old balance which is brought forward with each change; date and amount withdrawn; date and amount of deposit; date and new balance; and interest. After the items are entered and a book mark is inserted at each account, showing the changes for the day, the withdrawal slips are passed to the block control clerk. The accounts

are divided into blocks of 500 accounts each. The block control clerk, on receipt of the slips, enters them according to blocks on an adding machine of the same kind that is used by the pass book control clerk, listing the numbers of the accounts in one set of figures and the withdrawals and deposits in the other set, using the upper shift for deposits and the lower shift for withdrawals. He enters the block number on each slip. There may be several installments from the bookkeepers on the same block. At the end of the day he totals the slips for each block and enters the totals in the block control ledger. This ledger sheet is the same width and $1\frac{5}{8}$ inches longer than the depositor's ledger sheet. At the top of the sheet the block number, as from 1 to 500, the month and the year, are shown. It is divided into four columns, as follows: day, old balance; date, debit; date, credit; date, new balance. On the left edge of the sheet under day the numbers from 1 to 31 inclusive, are printed. There is a ledger sheet for each block, and the old and new balances should be recorded each business day even if there are no changes in the block for that day. The entries in this ledger are made by machine. After the bookkeepers have finished posting for the day they run through the ledgers, making use of the book marks, and total all withdrawals and all deposits in each block and the numbers of the accounts, while the block control clerk is posting his ledger. The bookkeepers' totals prove with the debits and credits to each account in the block control ledger. The grand total of numbers of accounts for each block and the debits and credits to the accounts in each block prove with the totals obtained for each block by the pass book control clerk. The debits and credits to each block are then totalled in the block summary sheet. These figures show the volume of business for the day and prove with the totals of the pass book control clerk. All entries on the block summary sheet also prove with the savings department deposits account in the general ledger. This method furnishes a double check on every total.

Interest is allowed on even dollars and for calendar months only. The rate varies in different places. It is usually from three to four per cent. per annum, and is added to the accounts semi-annually.

CHAPTER XX

LIFE, FIDELITY, AND TITLE INSURANCE AND SURETYSHIP

THE first corporations in this country authorized by law to act in fiduciary capacities were originally organized as life insurance companies. The insurance of lives and granting of annuities formed the mainstay of these older companies while their trust business was in its infancy. The gradual tendency has been toward a separation of the two forms of business, so that now some companies bear witness to their original character only in their names, others still carry some insurance business on their books but take no new risks, while in recent years many companies in states having a general trust company law have reinsured their remaining insurance risks, have eliminated the word "insurance" from their titles, and have taken advantage of the provisions of the general law.

A few trust companies until recently conducted flourishing life insurance departments. In such cases the insurance department, although related to a certain extent to the banking and trust departments, had a separate organization, was subject to different state laws, and was supervised by the insurance departments of the states in which it did business. One highly successful company was organized as a stock corporation, but its life insurance department was on a mutual basis. In this case the insurance department bore the entire expense of the home office, including the cost of banking and trust departments. The statement was made that this was more than repaid to the policy holders by the benefits of such an intimate connection with the other departments. It was certainly to the advantage of the stockholders to have the expense account eliminated from the general profit and loss account. A trust company doing an insurance business is required by law to keep a special reserve to secure its policy holders.

Other forms of insurance now more often found in connection

with trust functions are fidelity insurance and the business of acting as surety on official and other bonds, and title insurance. Until forty-five years ago nearly all fidelity insurance, or guaranteeing of the honesty of public officials, officers and employees of corporations, etc., was done by giving the personal bonds of individuals owning real estate. As soon as the advantages of a corporate guarantee were realized, it was but a short step to fidelity insurance, and the business of becoming security on bonds required by law, conditioned for the faithful performance of contracts and other obligations. The only obstacle to fidelity insurance was a prejudice in favor of the personal bond; in the surety business, public sentiment had to be aroused and laws enacted before the corporate bond could be accepted by the courts. Many trust companies which have done a fidelity or surety business in the past are either taking no new risks or are assuming no obligations of this character except when fully protected by counter indemnity constituting adequate security for the risk assumed.

Another development of the insurance idea has been its extension to real estate titles. The title insurance companies have vastly simplified real estate transactions. Laboriously made and costly searches and briefs of title, accompanied by an opinion of counsel, are done away with, and a guarantee against possible loss issued by a corporation of recognized financial standing, supersedes an individual opinion as to the validity of the title. The corporate conveyancer now occupies a position in the business community as well recognized as that of the corporate trustee.¹

A fully equipped title insurance company has in its possession an abstract of every deed, mortgage, sheriff's sale, and lien of record relating to each property in the district in which it operates. These records are its stock in trade and enable it rapidly and accurately to prepare abstracts, make searches, and attend to the multifarious details of real estate transfers. The title company can prepare the title papers, make the settlement and issue its settlement certificate, put the deeds and mortgages on record, and guarantee the validity of the title. Its office force includes both lawyers and conveyancers,

¹ See "Trust Company Law," by John H. Sears, "Trust Companies as Conveyancers, Abstractors and Title Insurers," p. 182 *et seq.*

whose technical knowledge is requisite to a successful conduct of the business.

Even where the Torrens system¹ of registration of real estate titles has been put into operation, the business of the title companies still flourishes. This is explained by the large number of transfers still made by the old methods, and by the fact that the usual abstract must be procured before a title can be recorded for the first time under the Torrens system.

In some states, trust companies are permitted to do a title insurance business, in others the exercise of the two functions is prohibited. In Pennsylvania, title insurance has been successfully combined with trust functions. The code of laws of the District of Columbia provides that corporations may be formed in the District of Columbia for the purpose of carrying on any one of the following classes of business:—

“FIRST: A safe deposit, trust, loan, and mortgage business.

“SECOND: A title insurance, loan, and mortgage business.

“THIRD: A security, guaranty, indemnity, loan, and mortgage business: *Provided*, That the capital stock of any of said companies shall not be less than one million of dollars, and that any of said companies may also do a storage business when their capital stock amounts to the sum of not less than one million two hundred thousand dollars.”²

The act thus prohibits the exercise of trust functions and the assumption of insurance risks by the same company.

The gradual development of the trust company idea along other lines seems to demonstrate that a company devoted to the care of estates should not assume future obligations, such as an insurance business entails. The maintenance of an insurance department, however successful, is not likely to act as an argument in favor of the appointment of the company as executor or trustee. The wonderful growth and development of insurance companies in this country have resulted from the organization of the great corporations devoted solely to insurance, and the present tendency toward a separation of insurance from general trust business seems likely to continue.

The profits of insurance of any kind depend on the volume of

¹ See p. 326.

² Code of Laws of District of Columbia, section 715. See appendix, p. 461.

business as well as on its management, and in this element of success, too, the large insurance company has an advantage over the trust company which, as one of its many functions, carries on an insurance business on a limited scale.

CHAPTER XXI

GENERAL ACCOUNTING

THE CONTROLLER

No matter how perfect the system upon which the business of a trust company is conducted, its practical application is in the hands of officers and employees who are only human and therefore liable to make mistakes. Some may become unprogressive in their methods, while others may be too eager to introduce changes which, though attractive from the standpoint of one department, do not properly fit into the general plans of the company. It therefore becomes necessary to lodge in some one person or group of persons the authority to maintain and supervise the accounts and records of the company.

In a small company the work may be done by the general officers with the assistance of the general ledger bookkeeper. In a large company the general officers are properly relieved of such duties. Another officer known as the controller, or sometimes as the auditor, is engaged. This officer becomes the final link in the bookkeeping chain, and his authority should extend to all departments of the company. Changes in accounting methods that are at all radical should be submitted by him to the general officers, and in some cases action by the board of directors is advisable. Continuity of policy and uniformity of records are prime requisites in the permanent success of any business, and while a trust company should always be progressive and ready to adopt genuine improvements, it should not be continually making changes that are of uncertain value. When once a satisfactory system is installed, it should be maintained reasonably intact. If it is based upon proper principles, further improvements will be in the nature of a development rather than an alteration, and as such may be readily introduced.

It is a part of the controller's duty to see that the system adopted

is faithfully carried out in all departments, and by every employee. At the same time he should be constantly on the alert to detect weaknesses and to discover means of saving labor and securing more accurate records. To do this, a man must possess a good knowledge of accounts and considerable force of character, coupled with a large degree of tact. He should be appointed by the board of directors and be directly responsible to the president for the proper discharge of his duties. No changes in the accounting system should be made by any clerk without the approval of the controller, and only the president and the board should have the right to direct that changes be made contrary to his judgment.

The controller should prepare, or at least approve, all reports or statements issued to the public or compiled for the use of officers and directors. He should verify the settlements of depositors' accounts and the statements rendered to beneficiaries by the trust department. He should examine and initial all entries for the receipt and delivery of securities owned by the company or held by the trust department, and he should be authorized to make at frequent intervals, but without previous announcement, examinations of all the departments of the company. In these examinations he should rely mainly upon comprehensive tests which he can make without attempting to verify each item. It should also be a part of his duty to approve, before payment, all vouchers for expenses, repairs, etc., whether for the company's account or for the accounts held in the trust department. The controller's work, if done efficiently, will serve as an internal check upon the work of the office, and go far to detect and correct clerical errors which, if allowed to pass unnoticed, detract from the reputation of a company and at times prove a cause of serious financial loss. In addition to this, his constant oversight and firm grasp of the details of the company's business will, in most cases, restrain an officer or employee from taking the first false step to disgrace and ruin.

COMPANY'S GENERAL LEDGER

The results of the company's business in all its departments are brought together in the general ledger. The accounts should be so

arranged that trial balances can be taken off at a moment's notice, and the real condition of the company be clearly and fully shown without rearrangement or analysis of figures.

The order of the accounts in the ledger is determined by the order in which they should appear on the balance sheet. Under the two main divisions of principal and income, credit accounts come before debit accounts. The quicker assets head the list. The exact names of the accounts may vary, but they should always be the simplest that will clearly denote the purpose for which the account is opened.

In the general ledger of every trust company, most of the following accounts will be found:—

PRINCIPAL

<i>Assets</i>	<i>Liabilities</i>
Cash	Deposits subject to check
Demand loans	Due to banks and bankers
Time loans	Special deposits
Commercial paper	Savings deposits
Stocks	Certificates of deposit
Bonds	Certified checks
Mortgages	Dividends unpaid
Postage stamps	Accrued interest payable
Accounts receivable	Expenses payable
Accrued interest receivable	Taxes payable
Real estate	Bonds
Banking house, furniture, and fixtures	Capital stock
Taxes paid in advance	Surplus
	Undivided profits

INCOME

Expenses	Interest receipts
Taxes	Commissions
Interest paid depositors	Safe deposit rentals
Errors in cash	Errors in cash
Profit and loss	Profit and loss

“Cash” is one of the most active accounts, and as it is the quickest asset, appears first on the list. All cash, whether on deposit or in the company's vaults, is carried in this account. In the daily cash report the amount is itemized to show notes, specie, and checks in vault, and the balances on deposit in other banks.

Next in order are "demand loans," "time loans," and "commercial paper." The details of the various sorts of loans are shown in auxiliary books. The commercial paper account is often called "bills receivable" or "bills purchased." The notes which it represents are usually unsecured, although occasionally they are accompanied by collateral.

Then come the permanent investment securities, "stocks," "bonds," and "mortgages." A detailed record of these securities is kept in an auxiliary set of ledgers. Real estate loans are carried in the mortgage account. Ground rents, such as are found in Philadelphia, are included under the general head of mortgages in statements to the commissioner of banking, but are usually carried in a separate account on the books of the Philadelphia trust companies. When a trust company issues its obligations, secured by mortgages held specifically as collateral security, a separate account "mortgages to secure bond issues" appears in the general ledger.

Postage stamps when purchased should be charged to a "postage stamps" account. A petty postage stamp book can be kept, in which both cash sales and deliveries to the various departments are recorded. The total cash sales and the amount of stamps delivered are credited monthly to the general ledger account, while each department is charged through the expense account with the cost of the stamps it has used.

"Accounts receivable" can be made a receptacle for assets of uncertain value.

"Accrued interest receivable." This account is charged by journal entry at the end of each month with the proportion of interest which has been earned on investments and loans during the month, and at the same time the income account "interest receipts" is credited with the same sum. The object of this entry is to credit earnings each month with the proportion of income actually accrued instead of with the items which happen to be paid. The accrued returns on each class of investment are shown in itemized form in the auxiliary ledgers.

It is well to show real estate held for investment purposes separately from that occupied by the company's office. The "real

estate" account shows the total book value of all real estate owned by the company, exclusive of the building it occupies.

"Banking house, furniture, and fixtures" represents the cost of these items. The value of land, building, furniture, and fixtures may be separated if desired. A further subdivision may also be made to show the cost of safe deposit vaults, title plant, branch offices, etc.

"Taxes payable." The balance in this account may appear on either side of the ledger. All taxes when paid are charged against this account. When the balance shows as an asset, it represents taxes paid in advance. When the balance appears as a liability, it represents the taxes that have accrued and are unpaid. This account is credited at the end of each month with approximately one-twelfth of the year's taxes, while the expense account "taxes" is charged with a similar amount. At the end of the year any balance in "taxes payable" is brought down as an item belonging to the succeeding year.

"Deposits subject to check" gives the net amount due individual depositors as shown in detail in the individual depositors' ledgers. If more than one class of deposits are received, the best plan is to have separate ledgers for each class of deposits and to show the balance of each in the general ledger, so that the company's liability on account of funds subject to check, court accounts, or other special deposits, can be ascertained from the general balance sheet.

"Due to banks and bankers." Deposits received from other financial institutions should be carried separately from the ordinary individual check accounts, as they are a very quick liability and may be drawn against in large sums, particularly when funds are scarce. It is therefore necessary to provide an ample reserve against this class of deposit and to watch carefully its fluctuations as shown by the general ledger balance.

Special deposits are often received and held subject to agreements which preclude their being classed with the ordinary deposits. Such items are kept in a "special deposits" account, or they may be included with certificates of deposit.

As savings deposits are not subject to check, and as a higher

rate of interest is paid, it is necessary to show the net liability on account of savings deposits separately from the other sorts of deposits.

"Certificates of deposit" represents special deposits, not subject to check, the obligation being issued in favor of the depositor or according to his direction, and being payable on demand or in accordance with the agreement on the face of the certificate. The general ledger account is credited with all certificates issued and is charged with those paid. The balance of the account represents the amount of outstanding obligations as shown by the stubs of the certificate of deposit book or by an auxiliary ledger.

"Certified checks." When a check is certified it is charged against the depositor's account and credited to the general ledger account. When the check is finally paid, the amount is charged against "certified checks."

On the date when a dividend is declared, a journal entry is made charging undivided profits and crediting "dividend account" with the amount of profits to be distributed. As a matter of convenience, it is well to open a separate account, numbered to correspond with the number of the dividend declared. Payments made on account of dividends are charged to the account of the dividend to which they belong.

"Accrued interest payable" is credited by journal entry at the end of each month with the amount of interest accrued on the various classes of deposits. By the same entry "interest paid depositors" is charged with a similar amount. The balance standing to the credit of "accrued interest payable" represents the liability for interest accrued and unpaid. When interest is credited in the depositors' accounts, the total is charged against this account and credited to "deposits subject to check," or any other class of deposits on which interest is being paid.

"Expenses payable." The balance to the credit of this account represents the amount of unpaid bills. At the end of each month, the total amount shown by the record of expenses is credited to "expenses payable" and charged against "expenses." All expense payments are charged against "expenses payable." By this

method all expenses, whether paid or not, are charged against the period in which they are incurred, and the unpaid balance is shown in this account.

"Taxes payable" has already been described. When the balance appears as a liability, it represents the amount of taxes accrued but not yet paid.

When trust companies issue bonds secured by mortgage or other collateral, the total amount of the issue is shown in a general ledger account. Such bonds are a direct obligation of the trust company, whose profit consists in the difference between the rate of interest it pays and that which it receives on the mortgages or other securities in which the proceeds of the sale of the bonds are invested.

"Capital stock" and "surplus" represent the permanent capital employed in the business.

The "undivided profits" account represents all undivided profits except those in the surplus account, unless another account is opened for profits held as a special reserve. "Undivided profits" is credited at the close of each fiscal year with the net profits as shown by the profit and loss account.

"Interest receipts" is credited with all interest received on loans and investments, including income from real estate. It is charged with payments for interest accrued on investments at the time of purchase and other similar items. At the close of the fiscal year the balance is credited to the profit and loss account.

In the "commissions" account receipts from special departments, such as the trust or title department, are credited. Special income receipts, such as commissions on account of underwriting syndicates, etc., are also credited to this account, and in general such items as are distinct from the ordinary returns from investments, and yet not of a character to be properly credited directly to profit and loss.

"Safe deposit rentals" are entered as a separate item so as to show the return upon the capital invested in the safe deposit department.

All "errors in cash" are charged or credited to this account, as the case may be. The totals of both sides of the account should be shown on the monthly balance sheets.

The "profit and loss" account is credited with all gains on invest-

ments when sold, and charged with all losses on investments. At the close of the fiscal year it is credited with all income in the way of interest, commissions, or other receipts, and is charged with the balance of expense and taxes accounts. A charge may also be made for depreciation of the building and equipment. The balance of profit and loss account, representing the net gain or loss for the year, is closed to undivided profits as noted above. These closing entries are made through the journal and should be accompanied by a full explanation. Except in the final balance sheet for the fiscal year, the profit and loss account should be shown on both sides of the balance sheet so as to avoid any danger of giving a false impression. Unless this is done, a credit balance of \$25,000 might equally well represent a gain of that amount or losses of \$30,000 offset by gains of \$55,000.

"Expenses." A journal entry is made on the last day of each month, charging "expenses" with the month's total as shown by the record of expenses and crediting "expenses payable." The expense account is credited for amounts received for check books, printing, express charges, etc., as shown by a petty cash receipts book, and the balance of the account is charged at the end of the fiscal year to profit and loss account.

"Taxes." On the last day of each month a journal entry is made, charging "taxes" and crediting "taxes payable" with one-twelfth of the approximate taxes for the year. The taxes account then shows the actual amount of taxes chargeable against the business. At the close of the fiscal year the total is charged to profit and loss.

"Accrued interest payable" is charged by cash entries with interest paid to depositors. By journal entry at the end of each month, "interest paid depositors" is charged and "accrued interest payable" is credited with the amount of accrued interest as calculated on the average daily balances of total deposits. At the semi-annual interest periods the entry is adjusted to agree with the amount of interest actually paid. "Interest paid depositors" is charged to profit and loss at the end of the fiscal year.

Additional accounts which have to be opened to fit the requirements of special lines of business should be made as far as possible to conform to the general system.

The general ledger should be closed only at the end of the fiscal year, when all the balances of both debit and credit income accounts are transferred by journal entry to profit and loss, and the balance of profit and loss is transferred to undivided profits. In this way all the income accounts are closed out preparatory to starting the business of the new fiscal year.

Postings in the general ledger are made from a cash book and journal. The cash book has separate columns for the most active accounts and a miscellaneous column for inactive accounts. The journal should be small, as its entries are comparatively few. Most journal entries are made at the end of each month and the close of the fiscal year. The general ledger bookkeeper's work may include simply the books in which the results of the business are assembled, or it may be expedient also to put under his care some of the closely related sets of auxiliary books in which the records of the company's investments are kept.

The time spent in taking off a daily trial balance is more than repaid by the immediate detection of errors. For a small trust company a trial balance book or daily statement is usually sufficient. In this the names of the general ledger accounts, written or printed in the left-hand margin, are followed by the daily balances in a series of vertical columns, one column for each day. In a large company, where detailed information is needed, a comparative daily balance sheet is more satisfactory than a simple trial balance. The sheets, kept in a binder or on file, are bound at the end of the fiscal period. In the first column are the names of the general ledger accounts, assets and liabilities at the top of the sheet, income and expenses in a separate section below. The four cash columns show the balances at the close of the previous day's business, the balances at the close of the current day's business, and the increases and decreases over the previous day. Below the total of assets is a line for "net change in assets." Yesterday's total of assets settles with to-day's total by adding the net change to the smaller of the two totals. The gross increases and decreases are also made to settle by adding the net change to the smaller total. In this way the correctness of the postings is proved. Net earnings for the current year appear as a liability. The totals of yesterday's and to-day's

liabilities are settled by adding the net change, as in the case of assets.

The income and expenses section of the balance sheet gives the earnings for the current year to the date indicated. The difference between the total income and total expenses shows the amount of undivided current earnings. The expenses and net earnings settle with the gross income. Dividends declared and paid from current earnings appear just above the undivided balance of earnings.

By the use of a comparative daily balance sheet, the items which change from day to day and the resulting balances are instantly ascertained. If a daily trial balance is not taken off, the changes in current earnings, deposits, loans, and reserve are often followed by keeping an abstract of these accounts.

A comparative monthly balance sheet, showing the increases and decreases of the month, is also used. The only difference between it and the daily sheet is the color of the paper, and the headings of the increase and decrease columns with a blank space for the dates instead of the word "yesterday."

A simple monthly balance sheet which can be kept in a small binder and be readily consulted without having to use the large comparative sheets, is often a convenience. The principal and income sections are arranged in two columns; in the principal section assets on the left and liabilities on the right hand side of the page, and in the income section earnings on the right and expenses on the left.

If the cash book is not readily available, a daily cash report is made out. The sheet is divided into three columns,— for receipts, payments, and cash balance at closing. In the first two appear the names of the more active general ledger accounts, with blank spaces in which the less active accounts can be written. Under loans, investments, etc., space is left to show the various items in detail. The total receipts for the day plus the balance at opening settle with the day's payments plus the balance at closing. In the third column, the cash balance at closing is analyzed to show the amount of notes, specie, and other cash items in the vault and the balance in each depository. The total deposits and percentages of reserves may also be shown.

In reports to stockholders there should be the fullest publicity consistent with the best business interests of the company. The practice of mailing copies of the report to the stockholders in advance of the annual meeting is to be commended, as the opportunity to examine the figures beforehand makes possible a more intelligent discussion of them at the time of the meeting. In published reports, clear, condensed statements are better than much detail. To make it easy for the stockholders and others to compare successive periods, the form of report should not be changed without good reason.

In reports of condition to the state banking departments, the forms provided in accordance with law must be used. As these statements are often published either by advertisement or in official reports, other public statements may well be based on them. Government regulation of banking institutions has done much in recent years to promote uniformity in bookkeeping methods. The names and order of the general ledger accounts may be modified to suit the forms required by the authorities, and many tedious and elaborate calculations will be avoided if the books are so arranged that a statement of condition is merely a copy of the daily balance sheet.

AUDITS AND EXAMINATIONS

Fortunately most bank and trust company officials are true to their trust. That more are not so is, in part at least, due to the fact that examinations of securities and accounts are not made as frequently and thoroughly as they should be. The community gives but little thought to the bank officer who, often on a small salary and constantly subject to severe temptation, works on year after year with absolute fidelity. Occasionally among the thousands of such men one succumbs to temptation, and the newspapers exploit his ruin, which not only affects himself but often involves in serious loss the bank in which he has been employed.

As all banks are examined in some way or other, the public, in the event of a defalcation, is too ready to jump to the conclusion that all examinations are ineffective and serve only to give a false sense of security. Those who have devoted any study to the subject

know that embezzlements of large amounts have occurred, almost without exception, in banks where, if examinations other than those by government officials have been made at all, they have been perfunctory and utterly inefficient.

Examinations of corporations doing a banking or trust company business are of two quite separate and distinct kinds: first, those made by representatives of a government department; and second, examinations made by or for the directors and stockholders. In the latter class may also be placed the examinations conducted under the auspices of clearing houses.

When the Federal Reserve system was established a new means of examination and oversight was introduced. This was coöperative in its nature since the Reserve Banks are essentially coöperative institutions. The act provided that Reserve Banks might examine their members at will, while it also provided that state institutions becoming members should be subject to examination by the Federal Reserve Board. The apparent scope and severity of the provision tended to keep trust companies out of the system until it was made plain that the new provisions were intended to reduce, not to increase, the annoyance inevitably incident to examination while at the same time rendering the whole examination system stronger and better through mutual aid. To-day the Federal Reserve system accepts the examination reports of state banking departments in lieu of its own examinations. Copies of these reports are furnished to the Reserve Banks by state banking departments upon authorization of the institution affected. The Reserve Banks likewise receive copies of the Comptroller's reports of examination of national banks and thus become fully advised of the banking situation in their districts. So efficient is the system that in various places local clearing house examinations have been given up or amalgamated with the Reserve examination system and it is the prevailing opinion to-day that the expense and trouble of examinations have been reduced and their efficiency increased so far as concerns members of the system.

Many trust companies—indeed far the larger number—are still outside the reserve system, however, and for various reasons are unlikely to become members. The problem of examination as affecting these, therefore, remains much the same as before. This

problem is essentially public in its nature and involves a measure of state control or oversight.

The public is more or less familiar with the examinations of national banks made by examiners representing the Comptroller of the Currency. In most of the states the banking laws provide for a commissioner of banking, or some similar official, who through his staff of examiners makes annual or semi-annual examinations of all trust companies. In addition to this examination, each company is required to furnish sworn statements of condition twice a year, and sometimes oftener, on days named by the state authorities.

This element of state control has resulted from the rapid growth and increased importance of trust companies and, although opposed at first as an infraction of corporate liberty, it is now generally recognized as both salutary and necessary. The state banking departments have done good service in checking what has seemed at times an almost mushroom growth, and in forcing weak companies to take proper precautions to safeguard the interests of their customers. In comparing the system of national bank examination with the methods of the state departments, it must be remembered that the national banking system has had more time to develop and that the trust companies, which have been springing up in such numbers in recent years, were at first almost without control, while they exercise broader powers and are more complex in their organization than national banks, and hence present greater difficulties to the examiner.

It is unfortunate that politics are so often involved in the appointment of examiners, who should always be trained men chosen for fitness alone. The examiner who begged a bank officer he was supposed to be examining to "go easy" with him, as he had just been transferred from the position of oleomargarine inspector for the dairy commissioner, appreciated the humor of the situation and took the only possible step to secure a first lesson in banking.

The officers of the state banking departments, whether experts or not, should have the good-will and coöperation of the trust companies under their jurisdiction, with resulting advantages to both. At the same time, the public as well as the directors of trust companies should bear in mind that examinations made by government officials

do not have for their primary object the detection of clerical errors or of any except gross frauds. These examiners are employed to ascertain that the bank or trust company is doing business according to the laws under which it is chartered, and that it is not assuming functions or authority not granted to it. Further than this, the government examiner, whether state or national, usually counts the cash and examines the securities owned by the bank or held as collateral for loans, or, in the case of a trust company, held for the accounts in its trust department. They usually reconcile some of the more important accounts and make an examination that is, upon the whole, quite sufficient for the purposes of the government, which does not in any sense undertake to act as an insurance company to protect stockholders and depositors from a loss of their investments. Government examiners have discovered many embezzlements, and, so far as the time at their command and the duties they are required to discharge will permit, they as a rule faithfully endeavor to protect the bank from loss wherever it may arise. It should, however, be recognized, as is frankly conceded by the best examiners themselves, that their work, though valuable, is entirely insufficient for the protection of the stockholders and the public.

In recognition of the necessity for other examinations, most banks and trust companies provide for examinations to be made annually, or more often, by the members of their board, by a committee of stockholders outside of the board, or by professional accountants — sometimes by a combination of two of these plans.

To be effective, the audit of a trust company must be made by some one reasonably familiar with the business of such a company, and with the methods usually found in such institutions. In addition to this, a comprehensive knowledge of accounts is essential, for only such training can give an examiner a proper grasp of the problems confronting him. The examiner should always keep in mind that the officers and employees of the institution he is examining are supposed to be honest, and should be treated accordingly; but at the same time he should never for a moment lose sight of the fact that his work is to discover error or fraud if it exists, and to produce such a moral effect upon those engaged in the bank or trust company as will deter them from carelessness or wrong-doing.

The man who contemplates stealing the funds of the bank in which he is employed, is desirous most of all of hiding his dishonesty, and in this he has the advantage of the examiner, inasmuch as he is working upon inside lines and has plenty of opportunity to study the methods of the examiner and to contrive means of circumventing him. It is not very difficult to discover the thief after he has wrecked the bank, but the ideal examination will reveal stealings in their incipient stage, and will make any successful manipulation of the bank's accounts so difficult and so certain of speedy detection that none but a reckless criminal would undertake it.

A good examination of a bank or trust company can be made by the board of directors, provided it is composed of men who have ample time at their command and who possess sufficient technical knowledge and experience in accounting and banking methods, and who are willing to devote themselves to the work. An examination made by such men is not only good for the bank, but is also good for them as directors, in that it brings them into personal touch with the securities, records, and employees of the institution in a way not otherwise possible. The knowledge they acquire in the ordinary course of business as directors is helpful to them in making the examination and enables them quickly to understand entries upon the books.

An examination made by a board of directors may, on the other hand, by reason of lack of time or of technical skill, or both, be of little real value, causing trifling uneasiness to a dishonest employee and failing utterly to command the respect of the men responsible for the property and accounts under examination. Directors who count merely the cash and securities put before them, and compare them only with the accompanying statement with which in any event the items are bound to agree, and who do not also carefully verify the records of the company to prove that all the property and earnings are being fully and clearly accounted for, are indulging in a solemn farce and almost putting a premium upon carelessness and dishonesty.

The strongest argument against examinations by directors is the fact that men of affairs may not be familiar with accounting methods or accustomed to handling cash or examining securities, and so may

fail to recognize errors which would be readily detected by a trained accountant.

Examinations made by stockholders outside of the board of directors are open to much the same objections as examinations made by directors, and are subject to the further criticism that the stockholder does not even possess the director's personal knowledge of the company's business. If, however, a committee of stockholders can be secured, consisting of men who are familiar with banking practices, and who are accustomed to dealing with accounts, an examination thoroughly made by them may be very valuable.

Directors of financial corporations are often busy men engrossed by interests other than those of the institutions which they are called on to direct. They are conscious that they lack the required skill, and that in any event the demands upon their time preclude the possibility of their making a thorough examination. At the same time, such men usually realize very keenly the responsibility resting upon them, and are most desirous that the funds of the corporation shall be carefully safeguarded. They also feel that an obligation rests upon them to remove so far as possible all temptations from the officers and employees engaged by them. It is their desire that their company shall conduct its business expeditiously and economically, and at the same time keep an absolutely accurate record of its transactions. Such directors, realizing their inability to deal with the situation in person, do what they are accustomed to do in their own business affairs when they find themselves similarly situated — they look for some one who can make the examination for them. It has consequently come to be a common practice for directors of large institutions to delegate the work of examinations wholly or in part to public accountants.

As legislation is now providing a body of certified public accountants in the leading states, who after fulfilling rigid legal requirements are duly admitted to the practice of their profession, and who are subject to severe penalties in the event of delinquency, it is comparatively easy to distinguish between capable, responsible accountants and those not so qualified. A certified public accountant in active practice is almost certain to have not only a good knowledge of banking and of the requirements of the courts in respect to

accounts, but also a knowledge of general business that is most useful in examining a trust company. He is accustomed to confidential relations, and his position in his profession and in the business community is directly contingent upon the faithful discharge of his obligations.

Some banks and trust companies in this country have adopted the practice of printing a public accountant's certificate in their published reports. This is in keeping with a custom that is growing among other classes of corporations in this country, and that is almost universal in Great Britain. Present tendencies point to its becoming generally expected by the business public, just as banking houses are now laying stress upon an accountant's certificate as to a customer's financial statement when presented as a basis for credit.

In many respects the best examination of a trust company is one made semi-annually or quarterly by the board of directors and a certified public accountant, in which the directors and the accountant work together in counting the cash and securities, thus enabling the directors to see the actual assets, while the accountant and his assistants complete the examination by verifying the book entries and accounts. In addition to these semi-annual examinations, a certified public accountant should be authorized to make more frequent examinations of the accounts of one or more departments at a time, without previous notice to any one in the company.

To discharge their duty to the stockholders whom they represent, to the public whose confidence they solicit, and to the officers and employees of whom they require the utmost fidelity, the directors of every trust company must see that a simple but adequate system of accounts is used and insist upon frequent and thorough examinations of the assets and records.

CHAPTER XXII

MISCELLANEOUS SUBJECTS

CORRESPONDENCE OR MAIL ROOM

IN a small company the care of correspondence presents no difficult problems. With the increase of business, complications arise which may result in confusion, error, and needless expense unless systematic methods are introduced.

The oversight of the mail is usually in the hands of the secretary, the details in a large office being cared for by a special force of assistants.

To secure the greatest economy of time and space, a uniform system should obtain throughout the entire office. While each department should have its mail so handled as to meet its particular needs, the methods used should be in harmony with the general system of dealing with the correspondence of the entire establishment. Even in a small company it is well to inaugurate a simple system capable of expansion.

When the size of the company is large enough to warrant it, there should be a special mail room, in which all mail is received and sorted and to which all out-going letters are sent to be mailed. Letters should not be allowed to accumulate either on the desks or in the mail room.

Whether the typewriting should be done in the mail room is a question to be determined by the exigencies of each case. With a limited force of stenographers more can be accomplished by having them together, under the direction of a chief operator who is held responsible for all the work. The other method, usually more satisfactory to the officers of a company, is to have stenographers attached to each department, who send their letters, after being signed, to the mail room. Such an arrangement saves the officers' time, as the stenographers are at hand when needed, and can be

made use of in many ways besides taking dictation. The stenographer often occupies the post of private secretary, and is a very important part of the office force.

To save time, the dictaphone can be used for the purpose of dictation. The officer dictates to the machine as he finds opportunity, and the operator sets the dictaphone at a convenient speed and typewrites directly from it without taking down the dictation in shorthand.

Other labor-saving devices should be introduced whenever they will facilitate the work. Duplicating systems are essential where many copies of letters or accounts must be made; and where the same lists of names are repeatedly used for mailing purposes, mechanical addressing systems should be used.

An ample force of stenographers should always be employed in order to save the time of officers and clerks, which can be used to better advantage in other ways. With the introduction of loose-leaf books and book typewriters, it is becoming more general to have book entries and card index records made on the typewriter, because there is less liability to error than in written entries, and the results are neater and often more legible.

All incoming mail is delivered to the secretary or his assistants. It is sorted and all specially addressed matter is sent to the proper departments without being opened. The addressing of the company's mail to individuals should however be discouraged, as important mail so addressed may, through the absence of an officer or employee, remain unanswered. The general mail should be opened, registered and distributed. Enclosures should be recorded in an incoming mail register in order to prevent loss and place responsibility. In some very large organizations each letter is followed up, and if an acknowledgment or answer is not returned for mailing within a reasonable time, the cause of delay is investigated. In most trust companies it is not necessary to have such elaborate systems as are needed in large mercantile establishments receiving and mailing hundreds or even thousands of letters each day.

Outgoing letters originate in the various departments, and after being signed should be sent to the mail room. There are various methods of copying typewritten letters, none of which have ever

proved as satisfactory as the carbon copy. If carbon copies instead of press copies are used the outgoing letter will look neat, while with the roller copier or copy press the original is often smeared. For filing purposes the carbon copy is always more satisfactory and the danger of a letter going out without an office copy being made is minimized.

If there is a very large mail, it may be found advisable to have the outgoing mail arranged in alphabetical order in a sorting tray, so that all letters to one correspondent may be sent out in a single cover. This simple device will in a large office save a surprising number of stamps and envelopes. The fact that one stamp box is used for the entire office, instead of having a separate supply on each desk, also leads to economy.

After the letters are inserted, the envelopes are put through a sealing machine, run either by hand or electricity. These machines automatically moisten the flap, and then pass the envelope through rollers under enough pressure to seal them securely. The envelopes are sealed as rapidly as they can be fed into the machine.

Various filing systems are in use — all of them an evolution from the carefully folded and docketed package of a generation ago.

For the business of a trust company the numerical vertical system is the most satisfactory, being the one most easily adapted to the demands of the various departments and their individual requirements. The letters and copies of answers are filed in manila folders, 10" × 12", which are placed on edge, open side up, in file-drawers. Each folder bears a number, and guide cards separate them by twenties so that any folder is immediately located in the file-drawers, which also bear labels indicating the numbers of the folders they contain.

Each new correspondent is given an accession number, and a card bearing that number is made out with his name and placed in the finding-index in alphabetical order, his correspondence being placed in the folder bearing the same number. A card once placed in the finding-index is never destroyed. Cross index cards should be used whenever necessary.

The advantages of the vertical system are too numerous to mention, but some of the most important features will commend

themselves to the busy man. He finds in his mail a letter from some individual or company, whose previous correspondence he wishes to consult. The file clerk brings him the folio entire. As he opens it on his own desk the latest letter from or to his correspondent is on the top, and as he turns the letters, just as one would turn the pages of a book, he finds in chronological order all communications in reference to the correspondent in question. As examples of what may be done with this system, a few very usual cases may be cited.

John Doe is a depositor. He sends deposits by mail. On the receipt of his first letter he is given card and folder No. 377 (there being already three hundred and seventy-six master cards and folders in use for other correspondents), and his letter and the copy of its acknowledgment are filed in folder No. 377, his card taking its proper place in the finding-index. The X. and Y. R. R. Co. inquire as to Mr. Doe's standing. The trust company replies, and since their interest is in John Doe in this matter, the X. and Y. R. R. Co.'s letter and answer are filed in folder No. 377, a cross reference card being placed in the finding index and the signature of the X. and Y. R. R. Co. being ignored. He may also be a member of the firm of Doe and Roe, Bankers, who have a loan account with the trust company. They have previously been assigned, let us say, folder No. 206. In this folder may be found their correspondence, and a folder following it and called No. 206 A contains their signed slips showing changes in collateral. Should a question arise at any time in regard to their loans, the contents of this folder will materially assist in establishing the facts. Doe and Roe send the trust company a deposit with the request that it be credited to John Doe. They thereby become, as far as correspondence is concerned, merely middlemen, and as in the case of the X. and Y. R. R. Co., this request and the copy of the acknowledgment of deposit are filed and cross referenced to John Doe.

Another case might differ a little, as follows. The trust company is buying, through several brokers, various securities. The interest of the trust company is then, of course, centered in the security and not in any one of the firms who may chance to have taken

its order. It may then be of advantage to have a set of folders bearing a number with an added letter. A card in the finding-index bears the name "securities" and the number 350. In the filing-drawer may be found folders No. 350 A, 350 B, 350 C, and so on; or if 26 divisions are unnecessary the alphabet may be divided to suit the case, as few as three divisions being sometimes sufficient, as 350 A-F, 350 G-N, 350 O-Z. Thus, if Doe and Roe buy for the trust company certain securities of the Y. and Z. R. R. Co., they are evidently acting, again from a correspondence standpoint, as middlemen; and the Y. and Z. R. R. Co., being the security in which the trust company is interested, any correspondence in regard to it from Doe and Roe or others may be found under "Securities," folder 350, and in its proper alphabetical subdivision, and the Doe and Roe card is cross referenced to "Securities" file 350 in its proper alphabetical subdivision.

Letters regarding syndicates in which the company participates will be most advantageously handled in like manner, and, in fact, filing by subject may be carried as far as is deemed expedient. Care should be taken, however, to file in this way only when the subject is more important than the name of the correspondent, and when all papers in regard to a given subject or of a similar character are more frequently wanted than the letters of each correspondent.

Under one number sets of folders with alphabetical subdivisions may be given to such general heads as "Applications for Positions with the Company," "Applications for Mortgages, Declined," "Miscellaneous Inquiries," and so on. Under these and other heads a great deal of the flotsam and jetsam of correspondence, which more than likely will not again be consulted after the first handling, may be safely filed. The advantage, for instance, of having all applicants' letters concentrated would be appreciated if an extra clerk were needed at a moment's notice. Instead of looking through the old style alphabetical file for half-forgotten names, appended to letters of wholly forgotten dates, within half a minute the entire correspondence of applicants may be laid before the officer desiring it, and he then may run through it in a few minutes more, and select the desired papers.

These examples serve to illustrate some of the methods which

may be used in general correspondence. Different companies, however, are sure to have different needs, and variations of the cases noted above, as well as entirely new problems, will be easy of solution where numerical vertical filing is used, the object in view being always so to file the correspondence that it may be easily located and consulted without unduly increasing the size of the finding-index or letter files.

Trust letters may be filed separately, if deemed advisable, but the fewer divisions of the files the greater the efficiency of the system. Wherever there is a division there should be a division of the index, too, and the fewer places there are to look the quicker, naturally, can the folder be produced. With trust correspondence a great many cross reference cards will be necessary, as all the beneficiaries, etc., must be cross referenced to the master card. A subject can, of course, be classified into as many classes as the discretion of the person in charge may determine. In trust correspondence statements and accounts can be filed in colored folders to distinguish them from the correspondence. Deposit slips should be filed alphabetically in special cases and no index should be necessary.

The real estate departments of some trust companies care for large numbers of properties, and improved properties must be kept tenanted and in repair. For many and obvious reasons the finding-index for this type of file must be territorial. The main divisions are by states, with subdivisions of county, town, street, and finally street numbers in numerical sequence. To find the entire correspondence relating to a given property, including letters from tenants, inquiries from prospective tenants, letters from carpenters and other mechanics, notices from city authorities, inquiries from the owners for whom the company is acting, and the copies of replies to all these, one folder is consulted. To locate the folder one has only to find the property on its card, which bears the folder number, as in the general correspondence. In half a minute the officer desiring it has laid before him all communications referring to the property in question. Tenants change, mechanics change, several part owners write, and so on, but the property always retains the folder number first given it.

The mortgage correspondence may also be handled in the same

way, since the only sure way of locating mortgage letters is by property. Both interest payer and mortgage owner may change, as in the case of a mortgage sold by one trust account and bought by another, or the sale of a property subject to a mortgage, but the property number remains the same, and makes possible immediate consultation of all correspondence.

Transferring is a very simple matter under the vertical system. As folders get unwieldly or the current files are filled, the correspondence is transferred into wooden boxes, $14\frac{1}{4}'' \times 24\frac{1}{2}''$. These boxes should be kept in a transfer room and should be readily accessible. A label on the outside of each box indicates the numbers of the folders which it contains, and the dates included in each are shown. At least a year's letters should be kept in the current files except when the correspondence is too voluminous or when the account is closed. The folder in the current file is stamped to show to what date the correspondence has been transferred. In a big company the practical way of transferring is to transfer all the letters of a given period. If the correspondence is not too voluminous the ideal way is to transfer a given number to the same transfer case to which previous correspondence of the number has been transferred, but as this takes considerably more time it is not advisable where the file is heavy. It does however save a great deal of time in locating transferred matter.

The above gives a working plan for handling the correspondence of the average company. The success of any filing system depends in large measure upon the intelligence of those who are actually doing the work. When one remembers that quickness in filing a letter does not necessarily insure ease in finding it, the care and time taken in establishing and carrying out a suitable system are amply justified.

CLERICAL FORCE

The cost of labor turnover is better recognized in factories than in banking offices. In the selection of employees, mental tests, psychological and physical examinations, and all the questions asked by a life insurance or surety company before issuing a policy of in-

surance, can be insisted upon with propriety, and are likely to facilitate the decision as to employment or rejection.

In large organizations an employment manager can do effective work, and by systematic methods greatly reduce the labor turnover and make the majority of rejections before, instead of after, employment.

The personnel of a trust company force must be of a high order of intelligence if it is to render satisfactory service. As in an army, a superior grade of private can be counted on to make good, even under indifferent officers, when a lower grade of rank and file cannot succeed under the most capable leadership.

It is the recognition of these facts which has led large banking institutions to inaugurate schools of instruction, welfare work, social and other activities in order to attract and hold the best types of employees. Liberal bonus payments, pensions, group insurance, profit-sharing and other forms of financial reward are also being increasingly used to supplement regular salaries and offer added inducements to a trust company career.

There is no position in a trust company so humble as not to demand serious consideration of the character of the man who is to fill it. Where money values are so constantly dealt with, either directly or indirectly, honesty is always the first qualification. Education and previous occupations come next in importance. The general impression that no previous training is needed, that the bank or trust company is an asylum for poor relatives, high grade "morons" or luckless failures, is not shared by officers who have conducted an involuntary kindergarten and attempted to pound into shape the raw material thrust upon them by importunate directors, stockholders, or clients. There is no room for "influence" in trust company appointments.

Home surroundings are often the best index to personal character, and a good name is not to be despised as a restraint from temptation and a spur to healthy ambition. The manners and general appearance of the office force have their bearing on the business. Handwriting — an almost neglected art outside the public schools — may settle the question of a clerk's promotion. On the whole, the man with college training, particularly if he is dependent on his

own exertions, is the best type for trust company positions. Technical knowledge is easily supplied if earlier training has given the broad outlook and mental grasp which fit a man to rise to posts of responsibility.

Banking has been one of the last fields to be entered by women. The stenographer was the entering wedge, and many other positions have since been captured. It is after all not so much a question of sex as of qualifications. There is no more room for the untrained woman in a trust company than there is for the untrained man.

The great war and woman suffrage have opened the higher banking positions to trained and well qualified women, many of whom in banks and trust companies have already demonstrated their aptitude for successful executive leadership. The competition of clever and capable women will relegate the dull and self-satisfied type of male official to his proper place. The time is not far distant when the holding by women of responsible positions as trust company officers will be taken as a matter of course.

Employees are now almost universally required to furnish bonds for the faithful performance of their duties. These may be either personal bonds given by the employee and some relative or other individual who goes surety for him, or the obligation of a surety company. The surety company's bond is rapidly superseding the personal bond. The employer often pays the premiums. The surety companies examine carefully the history and character of the employee, and keep more or less closely in touch with their "risks," as occasion may require. The better companies pay losses promptly and use every effort to secure the conviction of wrong-doers, and this in itself acts as a powerful deterrent. They also take the responsibility of investigating the conduct of employees, and their cancellation of a risk or refusal to renew a bond is sufficient reason for dismissal.

To get the best work from employees, strict and impartial discipline must be combined with liberal treatment and the prospect of deserved promotion. Salaries are based on the position and on the length of service. The trust company should protect itself not only by surrounding its employees with every safeguard, but by paying salaries on which they can live decently. Every employee

should be prohibited from stock or other speculation, and an infraction of this rule should be adequate cause for dismissal. Promotions should be governed by civil service principles in a trust company as much as in a government department. The system should, however, be elastic, and care should be taken not to promote unless the employee is well qualified for the higher post.

“Anybody can do twelve months’ work in eleven months; nobody can do twelve months’ work in twelve months.” Mental work to be well done requires a definite amount of relaxation far greater than is required in the performance of mere physical labor. In the keen competition and busy life of this country it is seldom realized how necessary rest is for those who do exacting mental work, and particularly for those who hold positions of responsibility. In trust companies regular attendance should be required when on duty, and liberal vacations should be given, both for the sake of the employee and as a protection to the company. The clerk who is never willing to be absent needs watching. A well-known firm requires each of its office employees to take a day off duty each month, when all personal and private affairs must be attended to. One of the advantages of this plan is that, in substituting, the employees have frequent opportunity to examine and become familiar with each other’s work. Vacations should be graded first as to the position held, and secondly as to length of service. It goes without saying that the officer who is responsible for the conduct of the business needs more time off duty than the clerk who leaves all thought of work behind him when he closes his ledger. The best officers are not those who stick too closely to their desks.

Civil pensions which in Europe are so common are gradually being adopted by many business houses in this country. To keep up an effective organization and progressive methods, a trust company, like an army, must provide some plan of compulsory retirement. The system should be based on the position held at the time of retirement, age, and length of service. The rules governing officers and clerks should vary according to the requirements of each class. Compulsory retirement sometimes causes the loss of valuable employees, but these are few in proportion to the total number retired, and there is usually an actual saving in salaries.

MESSENGERS, WATCHMEN, AND CLEANERS

The entrance of every trust company should be guarded by an adequate force of efficient watchmen, who can assist and direct customers, and exclude pedlers, book agents, and other undesirable visitors.

A western trust company keeps tally of all visitors by requiring the watchman at the doorway to hold in his hand an automatic counting device, which he presses each time any one enters the building. The total is reported to the president on the summary of each day's business. The record itself is not so valuable as the fact that it lessens the possibility of any one being able to slip in unnoticed.

In addition to the force of watchmen stationed at the entrance of the building and in the various departments, there should be a sufficient number of messengers. These may be either boys specially employed, or watchmen detailed for the purpose. All outside errands should be passed through the chief messenger, who can often arrange that several errands shall be done on the same trip, saving both time and carfare.

The night watchmen, who are left in entire charge of the building and its contents, should be intelligent and active, as well as thoroughly trustworthy. It is a mistake to suppose that this is a position to be filled by the superannuated. The watchmen inspect the building at frequent and regular intervals. Except in case of emergency, they should never admit any one to the building unless authorized to do so by the proper officer. Outside electric connections are now used as a valuable additional protection.

The cleaners are sometimes a separate force; often the watchmen and messengers do this work. Whatever the arrangement, the cleaning should be regularly done under strict supervision. The best results are obtained by having a housekeeper or superintendent of the building, who is responsible for its condition, and who oversees the work of scrubbing and cleaning. The standard of cleanliness in offices is unfortunately not high, and in many that abomination, the feather duster, still holds sway. A lesson in the art of conquering dirt should be learned from the hospitals.

OFFICE BUILDING

Trust companies are permitted by law to hold sufficient real estate to provide for the conduct of their business. The limit of such holdings is usually fixed by charter or statutory provision.

Some trust companies occupy rented quarters, but location is so important a factor in securing and holding business that for the sake of permanent tenure they usually own their office buildings. Where the price of land permits, the company generally prefers to occupy an entire building.

The construction should be of the best, and the first cost will be more than offset by the later saving in repairs. The building should be fireproof throughout, the walls heavy enough to protect the interior in case of fire in adjoining buildings. If surrounded by high buildings, the roof should also be strong enough to bear the weight of walls which may fall upon it. Steel cases and shelving are superior to wood.

The main banking room occupies the ground floor. There is usually a lobby just inside the entrance and a central aisle with the offices on each side. The banking department is generally near the entrance, while the trust and other departments are in the rear or on different floors. The higher officers should be protected from the importunities of the peddler and book agent, and yet they should be within reach of all who wish to consult them.

The plans for a new building should provide a systematic arrangement of departments, and allow space for future growth. In each department there should be a comfortable room for the officer in charge, and ample provision for the convenience of customers. In the trust department, especially, where the visits of clients are necessarily often long, there should be pleasant waiting rooms, and rooms where securities may be received and counted, or conferences held, with due regard for privacy. Many companies are now providing separate quarters for women customers, furnished with every luxury, and with a maid in attendance. Adequate lavatories for the use of both the office force and the public are essential. Where both men and women are employed, separate dressing and wash rooms

must be provided. Each employee should have a locker for his personal use. Clerks should not be permitted to leave hats or clothing where they can be seen by the customers. Storerooms for old books, records, and correspondence should be so arranged that all documents can be readily found and consulted when necessary. If meals are served to the employees, the dining rooms, pantry, and kitchen should be at the top of the building if possible,—never in the basement,—and so ventilated that the smell of cooking cannot penetrate elsewhere. The officer in charge of the building should make a careful study of its ventilation. Fresh air is essential to the health and efficiency of the employees, and the comfort of customers. The basement should extend under the entire building, and where space is precious, it can be used for safe deposit vaults as well as for lighting and heating plants, lavatories, and stock rooms.

The vaults are built on foundations entirely separate from the rest of the building. The heavy main doors are equipped with time and combination locks. Inside these are grill doors for use during office hours, and locked steel closets. Electric attachments are often used, which record at a point outside the building the time when the vault doors are opened and closed.

After office hours all persons entering or leaving the building should do so through a single door, and the watchman on duty should keep a tally sheet of their names. An automatic attachment rings a bell and records the time while the door is open. The two records should be compared each morning. A time detector should be punched at regular intervals by the watchmen who make frequent rounds of the building. The right to enter the building when closed should be limited to as small a number as possible.

On the books of a new organization, its building and fixtures appear at cost figures. These should gradually be reduced to allow for possible depreciation in the value of the land and for the wear and tear of building and fixtures. In almost every mercantile or manufacturing business, a fixed amount is annually written off for the depreciation of the plant, and the same principle should be followed by financial institutions, although many of them let real estate and buildings stand at cost on the books, and are content to take the half-way measure of charging repairs and renewals to expenses.

Even if the value of the land increases, it is sound policy to cut down the book value so as to be prepared for the possible removal, extension or alteration of the office building.

LUNCHEON ROOM

Where the size of the company and the profits of the business warrant the expense, it is advisable to give the employees a luncheon in the building. The only argument against providing meals is their cost, and this may be defrayed by charging for them, and still giving a cheaper and better luncheon than could be obtained elsewhere. The substitution of a comfortable meal for a "quick lunch" of dubious quality has its effect on the health and regular attendance of the office force. It also insures the clerks being in the building if needed, obviates the danger of their frequenting undesirable resorts, and reduces the length of time they are absent from their desks.

Sometimes a caterer brings the meal already prepared to the office. It is more satisfactory for the company to have its own kitchen, storeroom, and pantry, and to employ a housekeeper. The housekeeper should prepare the weekly menus and submit them for approval to a superior officer. There may be somewhat different bills of fare for the messengers and watchmen, the general force of clerks, and the officers. Usually there is a special dining room for the president and directors. In some companies luncheon is served separately to the women employees.

By having two tables at which meals are served alternately each half hour, the office force can be provided for without taking many from their desks at the same time. One capable cook and a helper can provide luncheon for about one hundred persons, and two waiters can serve the meals to the same number in relays of twelve to eighteen. Where a series of luncheons is served, a hotel gas range should be used. The cost is usually about the same as for coal, and a quick and even fire is secured with entire freedom from ashes. There should be large serving and steam tables. It is also well to provide ample refrigerators and storerooms so that meats and provisions can be bought in quantity.

If a housekeeper is employed, she should be responsible for the

cleanliness of the entire building, and the scrubbers and cleaners should be under her direction. A competent housekeeper who is a trained dietitian with a good knowledge of household economics can make the position an important one. A housekeeping department makes it possible to provide luncheons for stockholders' meetings and other special occasions at comparatively slight cost.

PURCHASE AND CARE OF SUPPLIES

To avoid duplication and waste, all purchases should be made under the direction of a single officer especially qualified for this duty. Each department makes requisition on the purchasing officer for needed supplies. The buyer should, if possible, not be the disbursing officer. An absolute rule should be made against the purchasing officer's accepting commissions and gifts, no matter how trifling, or rebates of any sort. There cannot be fair competition unless the bidder realizes that price and quality are the only factors to be considered.

Carelessness on the part of buyers has probably fostered the prevailing opinion that the large profits of financial institutions make them fair game for the merchant as well as the tax gatherer. As a matter of fact, a trust company should be able to buy on more favorable terms than the ordinary customer, because of the certainty of prompt payment and the likelihood of continuous custom. Good policy requires that the purchases of a trust company should be in keeping with its reputation for solidity and success; its stationery should be attractive for the same reasons that its building should be kept in good repair. The most expensive supplies are not always the most serviceable, however, and the expert purchasing officer can effect large savings by knowing where and how to buy to the best advantage. Thus, certain firms, whose prices are low for one kind of work, may invariably be high for others. The stationer who outbids his competitors on general printing may not be able to compete on the item of envelopes with the envelope manufacturers who both make and print the goods.

Wherever possible, purchases should be made in quantity and after securing competitive bids. Careful specifications should always

be prepared, both to protect the purchaser and to make it certain that the bidders are all estimating on the same thing. Bids should be asked only from reputable and responsible firms. When long experience has proved that a particular firm always presents the lowest bid in its line, and that the prices vary but slightly from year to year, it may not be necessary to get more than their single estimate unless there should be a sudden advance in price.

All stationery and books in regular use should be ordered annually. When expensive forms are used in small quantities, considerable saving can be effected by ordering for longer periods. If the order for the entire year's printing is given in the late spring or early summer, when the printers' business is dull, and full time is allowed for delivery, a concession in price can usually be obtained. Special and rush orders are always costly.

Before the annual orders for stationery and supplies are given, the stock clerk should show on an inventory sheet the stock on hand, the amounts used during the previous year, and the date, quantity, and prices of the last order. Using these figures as a basis, estimates are asked for the amounts needed for the coming year.

In a trust company the cost of supplies is charged off as an accrued expense as soon as the bill is approved as correct. Hence the inventory of supplies on hand does not, as in a mercantile or manufacturing business, form an essential part of the balance sheet. Careful records should nevertheless be kept in order to prevent waste.

In a recently organized trust company in a small country town, the bank examiner found on his first visit an item of "personal property" in the general balance sheet. Upon inquiry this item was found to represent the stock of pens, pencils, and stationery on hand, and the examiner's suggestion that the item be charged off as an expense, brought to light the fact that the earnings were not sufficient to cover their cost, and that charging them off would result in an impairment of the company's capital!

All goods should be delivered to the stockkeeper, who examines them and notes their receipt in a record of supplies received. He should compare the goods delivered with the quantities ordered, and initial the bills if found correct. He is responsible for the care of all supplies and should be given ample space to arrange them

Inventory and Schedule of Annual Order of Supplied

456

systematically and neatly. The supplies belonging to each department should be kept together and when possible arranged according to the number of the form. They may be kept on open shelves of varying size, in cheap pasteboard boxes, the smaller boxes one-half, one-quarter, and one-eighth the size of the larger ones, so that the different sizes can be stacked together without wasting space. In ordering large quantities of stationery, envelopes, etc., it is well to specify that the goods shall be delivered either in boxes or else wrapped in sealed packages and clearly marked with the form number and amount.

No stock should be distributed to the various departments except upon requisition, properly signed. A stock record should be kept, and for this purpose cards are more convenient than a book. The cards, ruled to show the name of the article, the fixed maximum and minimum quantities, the receipts, deliveries and balance on hand, can be secured from any well equipped stationer. Postings are made at regular intervals from the record of stock received and the requisitions. By keeping track of the balance on hand, it is easy to know just when to order fresh supplies. As the stock record shows the quantities used from year to year, it is also a simple matter to estimate the quantity needed for any given period. Without such a record it would be all but impossible to order supplies systematically. The stock record can, if desired, be combined with the index of forms described below. The stockkeeper should take stock at stated periods, in order to verify his records.

Contracts should be made covering the cost of small and recurring items, such as printing depositors' names on standard checks, and numbering and binding checks.¹ Standard qualities of paper and a uniform style of printing should be adhered to. All forms should be numbered and bear the amount and date of the order. Thus, "T. 21. 5000 7.20" would designate trust department form, No. 21, for which the order was given in July, 1920, for 5000 copies.

Orders should invariably be given on a printed order form, and a carbon copy or stub should be retained. Copies of the forms used in each department should be kept in a sample book, arranged according to form numbers. This should be supplemented by a card

¹ See p. 144.

index of forms arranged in the same way and giving the date, quantity, and price paid. The quantities purchased during a period of years and their cost are thus recorded, and fluctuations in price are easily traced. Following the cards representing numbered forms there should be an alphabetical index of other equipment in regular use.

ADVERTISING

The well-pleased client is undoubtedly the best advertisement; but in these days of severe competition it does not do to depend alone on the good-will of friends to spread a knowledge of one's business. The better the commodity or service one has to offer, the more important to have it brought to the notice of the people who need it.

Advertising has become an art, and the form of the advertisement must be carefully adapted to the nature of the business, and the temper of the public appealed to. The merchant may be justified in crying his wares in a fashion entirely inappropriate for the trust company, which misses the whole object of drawing attention to itself unless it can inspire confidence at the same time. The old and conservative community, especially, must not have its ideas of decorum too rudely shaken.

Most trust companies advertise regularly in daily newspapers, and occasionally in magazines. They also distribute statements of condition, leaflets, pamphlets, and even larger books, giving a history of the company or explaining its purposes. There is, besides, a mass of more or less delusive advertising — delusive, that is, from the point of view of the advertiser. Blotters, calendars, rulers, and the thousand and one gift books and novelties which trust companies are continually urged to use as advertising matter may occasionally bring in business, but the return is seldom in proportion to the outlay.

Mr. John E. Powers, the author of much successful advertising, says: "The limit to what can be done in newspapers is one little item a day, one simplest possible thought. Divide the whole knowledge into its smallest parts, and present one part a day. The attention of people to such things is no more than enough, if indeed it be enough, for one little thought a day: and the smaller the thought, the more likely it is to grow in the reader's mind."

Money given at the request of powerful friends to a charity, a city bureau, or a local military organization should be charged to profit and loss rather than to advertising. Especially to be avoided are so-called directories and gift books published simply to secure advertisements, and the alluring volumes in which a history of the company or biographical sketches of its officers are to be inserted without charge. The large supply of "marked copies" which has to be bought later, or the bill for etching a second-rate portrait, sets a price on this concession to corporate or individual vanity.

The banker is proverbially "easy" in these matters. He has not been forced to give the same close attention to advertising as the merchant, and he seldom has an expert advertising manager. The need of system is, however, gradually being recognized. A trust company's advertising should all be in charge of one person, and the sum to be expended for the year, as well as the general plan of campaign, should be settled and contracts made in advance. If there is no one in the office force fitted to map out the work successfully, an advertising agency of high grade may be employed to take charge of all the advertising, or to act in an advisory capacity. In the selection of an expert great care should be taken, for the man who can successfully advertise a soap or a piano, may not understand the difference between a grocery store and a trust company. On the other hand, a plan should not be condemned simply on the ground of novelty, and the agent once chosen should so far as possible be given an opportunity to carry out his ideas.

APPENDIX

CODE OF LAWS OF THE DISTRICT OF COLUMBIA

SUBCHAPTER XI

Trust, Loan, Mortgage and Certain Other Corporations

SEC. 715. For What Purposes to be Formed.—Corporations may be formed within the District of Columbia for the purposes hereinafter mentioned in the following manner: At any time hereafter any number of natural persons, citizens of the United States, not less than twenty-five, may associate themselves together to form a company for the purpose of carrying on in the District of Columbia any one of the three classes of businesses herein specified, to wit:—

FIRST. A safe deposit, trust, loan and mortgage business.

SECOND. A title insurance, loan and mortgage business.

THIRD. A security, guaranty, indemnity, loan and mortgage business: PROVIDED, That the capital stock of any of said companies shall not be less than one million dollars and that any of said companies may also do a storage business when their capital stock amounts to the sum of not less than one million two hundred thousand dollars.

SEC. 716. Organization Certificate.—Such persons shall, under their hands and seals, execute, before some officer in said district competent to take the acknowledgment of deeds, an organization certificate, which shall specifically state—

FIRST. The name of the corporation.

SECOND. The purposes for which it is formed.

THIRD. The term for which it is to exist, which shall not exceed the term of fifty years, and be subject to alteration, amendment or repeal by Congress at any time.

FOURTH. The number of its directors, and the names and residences of the officers who for the first year are to manage the affairs of the company.

FIFTH. The amount of its capital stock and its subdivision into shares.

SEC. 717. Power of Commissioners of the District.—This certificate

shall be presented to the Commissioners of the District, who shall have power and discretion to grant or refuse to said persons a charter of incorporation upon the terms set forth in the said certificate and the provisions of this subchapter.

SEC. 718. Notice of Application to Commissioners.—Previous to the presentation of the said certificate to the said commissioners, notice of the intention to apply for such charter shall be inserted in two newspapers of general circulation, printed in the District of Columbia, at least four times a week for three weeks, setting forth briefly the name of the proposed company, its character and object, the names of the proposed corporators, and the intention to make application for a charter on a specified day, and the proof of such publication shall be presented with said certificate when presentation thereof is made to said Commissioners.

SEC. 719. Recording Charter, etc.—If the charter be granted as aforesaid, it, together with the certificate of the Commissioners granting the same indorsed thereon, shall be filed for record in the office of the recorder of deeds for the District of Columbia, and shall be recorded by him. On the filing of the said certificate with the said recorder of deeds as herein provided, approved as aforesaid by the said Commissioners, the persons named therein and their successors shall thereupon and thereby be and become a body corporate and politic, and as such shall be vested with all the powers and charged with all the liabilities conferred upon and imposed by this subchapter upon companies organized under the provisions hereof: **PROVIDED, HOWEVER,** That no corporation created and organized under the provisions hereof, or availing itself of the provisions hereof as contained in section seven hundred and twenty-five, shall be authorized to transact the business of a trust company, or any business of a fiduciary character, until it shall have filed with the Comptroller of the Currency a copy of its certificate of organization and charter, and shall have obtained from him and filed the same for record with the said recorder of deeds, a certificate that the said capital stock of said company has been paid in and the deposit of securities made with said Comptroller in the manner and to the extent required by this subchapter.

SEC. 720. Reports to Comptroller.—All companies organized hereunder, or which shall, under the provisions hereof, become entitled to transact the business of a trust company, shall report to the Comptroller of the Currency in the manner prescribed by sections fifty-two hundred and eleven, fifty-two hundred and twelve, and fifty-two hundred

and thirteen of the Revised Statutes of the United States, in the case of national banks, and all acts amendatory thereof or supplementary thereto, and with similar provisions for compensating examiners, and shall be subject to like penalties for failure to do so. The Comptroller shall have and exercise the same visitatorial power over the affairs of the said corporation as is conferred upon him by section fifty-two hundred and forty of the Revised Statutes of the United States in the case of national banks. He shall also have power, when in his opinion it is necessary, to take possession of any such company for the reasons and in the manner and to the same extent as are provided in the laws of the United States with respect to national banks.

SEC. 721. Special Powers.—All companies organized under this subchapter are hereby declared to be corporations possessed of the powers and functions of corporations generally, and shall have power —

FIRST. To make contracts.

SECOND. To sue and be sued, implead and be impleaded, in any court as fully as natural persons.

THIRD. To make and use a common seal and alter the same at pleasure.

FOURTH. To loan money.

FIFTH. When organized under subdivision one of section seven hundred and fifteen of this subchapter, to accept and execute trusts of any and every description which may be committed or transferred to them, and to accept the office and perform the duties of receiver, assignee, executor, administrator, collector of estate or property of any decedent, guardian of the estate of minors, with the consent of the guardian of the person of such minor, and committee of the estates of lunatics and idiots, whenever any trusteeship or any such office or appointment is committed or transferred to them, with their consent, by any person, body politic or corporate, or by any court in the District of Columbia; and all such companies organized under the first subdivision of section seven hundred and fifteen of this subchapter are further authorized to accept deposits of money for the purposes designated herein, upon such terms as may be agreed upon from time to time with depositors, and to act as agent for the purpose of issuing or countersigning the bonds or obligations of any corporation, association, municipality, or state, or other public authority, and to receive and manage any sinking fund on any such terms as may be agreed upon, and shall have power to issue its debenture bonds upon deeds of trust or mortgages of real estate to a sum not exceeding the face value of said deeds of trust or mortgages,

and which shall not exceed fifty per centum of the fair cash value of the real estate covered by said deeds or mortgages, to be ascertained by the Comptroller of the Currency; but no debenture bonds shall be issued until the securities on which the same are based have been placed in the actual possession of the trustee named in the debenture bonds, who shall hold said securities until all of said bonds are paid; and when organized under the second subdivision of section seven hundred and fifteen of this subchapter said company is authorized to insure titles to real estate and to transact generally the business mentioned in said subdivision; and when organized under the third subdivision of section seven hundred and fifteen of this subchapter said company is hereby authorized, in addition to the loan and mortgage business therein mentioned to secure, guaranty, and insure individuals, bodies politic, associations, and corporations against loss by or through trustees, agents, servants, or employees and to guaranty the faithful performance of contracts and of obligations of whatever kind entered into by or on the part of any person or persons, association, corporation or corporations, and against loss of every kind: PROVIDED, That any corporations formed under the provisions of this subchapter when acting as trustee shall be liable to account for the amounts actually earned by the moneys held by it in trust in addition to the principal so held; but such corporation may be allowed a reasonable compensation for services performed in the care of the trust estate.

SEC. 722. May be appointed Trustee, Executor, etc.—In all cases in which application shall be made to any court in the District of Columbia, or wherever it becomes necessary or proper for said court to appoint a trustee, receiver, administrator, collector, guardian of the estate of a minor, or committee of the estate of a lunatic, it shall and may be lawful for said court (but without prejudice to any preference in the order of any such appointments required by existing law) to appoint any such company organized under the first subdivision of section seven hundred and fifteen of this subchapter with its assent, such trustee, receiver, administrator, collector, committee, or guardian, with the consent of the guardian of the person of such minor: PROVIDED, HOWEVER, That no court or judge who is an owner of or in any manner financially interested in the stock or business of such corporation shall commit by order or decree to any such corporation any trust or fiduciary duty.

SEC. 723. Oath.—Whenever any corporation operating under this code shall be appointed such trustee, executor, administrator, collector, receiver, assignee, guardian, or committee as aforesaid, the president,

vice-president, secretary, or treasurer of said company shall take the oath or affirmation now required by law to be made by any trustee, executor, administrator, collector, receiver, assignee, guardian, or committee.

SEC. 724. Stock to be Security.—When any court shall appoint the said company a trustee, receiver, administrator, collector, or such guardian or committee, or shall order the deposit of money or other valuables with said company, or where any individual or corporation shall appoint any of said companies a trustee, executor, assignee, or such guardian, the capital stock of said company subscribed for or taken, and all property owned by said company, together with the liability of the stockholders and officers as herein provided, shall be taken and considered as the security required by law for the faithful performance of its duties, and shall be absolutely liable in case of any default whatever.

SEC. 725. Existing Companies.—Any safe deposit company, trust company, surety or guaranty company, or title-insurance company now incorporated and operating under the laws of the United States in the District of Columbia, or of any of the States, and now doing business in said District, may avail itself of the provisions of this subchapter on filing in the office of the recorder of deeds of the District of Columbia, or with the Comptroller of the Currency, a certificate of its intention to do so, which certificate shall specify which one of the three classes of business set out in section seven hundred and fifteen it will carry on, and shall be verified by the oath of its president to the effect that it has in every respect complied with the requirements of existing law, especially with the provisions of this subchapter; that its capital stock is paid in as provided in section seven hundred and thirty-five of this subchapter and is not impaired, and thereafter such company may exercise all powers and perform all duties authorized by any one of the subdivisions of section seven hundred and fifteen of this subchapter in addition to the powers now lawfully exercised by such company.

SEC. 726. Real Estate.—Any company operating under this subchapter may lease, purchase, hold and convey real property in which the offices of the company are located not to exceed in value the capital and surplus of the company, and such in addition as it may acquire in satisfaction of debts due the corporation, under sales, decrees, judgments, and mortgages. But no such association shall hold the possession of any real estate under foreclosure of mortgage, or the title and possession of any real estate purchased to secure any debts due to it, for a longer period than two years.

SEC. 727. Duration of Charter.—The charters for incorporations

named in this subchapter may be made perpetual, or may be limited in time by their provisions, subject to the approval of Congress.

SEC. 728. Capital Stock.—The capital stock of every such company shall be at least one million dollars, and at least fifty per centum thereof must have been paid in, in cash or by the transfer of assets as hereinafter provided in section seven hundred and thirty-five of this subchapter, before any such company shall be entitled to transact business as a corporation, except with its own members; and before any company organized hereunder shall be entitled to transact the business of a trust company, or to become and act as an administrator, executor, guardian of the estate of a minor, or undertake any other kindred fiduciary duty, it shall deposit, either in money or in bonds, mortgages, deeds of trust, or other securities, equal in actual value to one-fourth of the capital stock paid in, with the Comptroller of the Currency, to be kept by him upon the trust and for the purposes hereinafter provided; and the said Comptroller may from time to time require an additional deposit from any such company, to be held upon and for the same trust and purposes, not exceeding, however, in value one-half the paid-in capital stock; and the said Comptroller shall not issue to any corporation the certificate heretofore provided for until said deposit with him of securities required by this section. Within one year after the organization of any corporation under the provisions of this subchapter, or after any corporation heretofore existing shall have availed itself of the powers and rights given by this subchapter in the manner herein provided for, its entire capital stock shall have been paid in.

SEC. 729. Shares.—The capital stock of every such company shall be divided into shares of one hundred dollars each. It shall be lawful for such company to call for and demand from the stockholders, respectively, all sums of money by them subscribed, at such time and in such proportions as its board of directors shall deem proper, within the time specified in section seven hundred and twenty-eight, and it may enforce payment by all remedies provided by law; and if any stockholder shall refuse or neglect to pay any instalment as required by a resolution of the board of directors, after thirty days' notice of the same, the said board of directors may sell at public auction, to the highest bidder, so many shares of said stock as shall pay said instalment, under such general regulations as may be adopted in the by-laws of said company, and the highest bidder shall be taken to be the person who offers to purchase the least number of shares for the assessment due.

SEC. 730. Annual Reports to Comptroller.—Every such company

shall annually, within twenty days after the first of January of each year, make a report to the Comptroller of the Currency, which shall be published in a newspaper in the District, which shall state the amount of capital and of the proportion actually paid, the amount of debts, and the gross earnings for the year ending December thirty-first then next previous, together with their expenses, which report shall be signed by the president and a majority of the directors or trustees, and shall be verified by the oath of the president, secretary, and at least three of the directors or trustees; and said company shall pay to the District of Columbia, in lieu of personal taxes for each next ensuing year, one and a half per centum of its gross earnings for the preceding year, shown by said verified statement, which amount shall be payable to the collector of taxes at the times and in the manner that other taxes are payable.

SEC. 731. Liability of Trustees.—If any company fails to comply with the provisions of the preceding section, all the directors or trustees of such company shall be jointly and severally liable for the debts of the company then existing, and for all that shall be contracted before such report shall be made: PROVIDED, That in case of failure of the company in any year to comply with the provisions of section seven hundred and thirty of this subchapter, and any of the directors shall, on or before January fifteenth of such year, file his written request for such compliance with the secretary of the company, the Comptroller of the Currency, and the Recorder of Deeds of the District of Columbia, such director shall be exempt from the liability prescribed in this section.

SEC. 732. False Swearing.—Any wilful false swearing in regard to any certificate or report or public notice required by the provisions of this subchapter shall be perjury, and shall be punished as such according to the laws of the District of Columbia. Any misappropriation of any of the money of any corporation or company formed under this act, or of any money, funds, or property intrusted to it, shall be held to be larceny, and shall be punished as such under the laws of said District.

SEC. 733. Stock, Personal Estate.—The stock of such company shall be deemed personal estate, and shall be transferable only on the books of such company in such manner as shall be prescribed by the by-laws of the company; but no shares shall be transferable until all previous calls thereon shall have been fully paid, and the said stock shall not be taxable in the hands of individual owners, the tax on the gross earnings of the company hereinbefore provided being in lieu of other personal tax. All certificates of the stock of any company organized under this

subchapter shall show upon their face the par value of each share and the amount paid thereon.

SEC. 734. Liability of Stockholders.—All stockholders of every company incorporated under this subchapter, or availing itself of its provisions under section seven hundred and twenty-five, shall be severally and individually liable to the creditors of such company to an amount equal to and in addition to the amount of stock held by them, respectively, for all debts and contracts made by such company.

SEC. 735. Stock to be paid up in Money only.—Nothing but money shall be considered as payment of any part of the capital stock, except that in the case of any company now doing business in the District of Columbia in any of the classes herein provided for, or under any act of Congress or by virtue of the laws of any of the States, and which company has actually received full payment in money of at least fifty per centum of the capital stock required by this act and which company desires to obtain a charter under this act, all the assets or property may be received and considered as money, at a value to be appraised and fixed by the Comptroller of the Currency: **PROVIDED**, That all such assets and property are also transferred to and are thereafter owned by the company organized under this act.

SEC. 736. Number of Trustees.—The stock, property, and concerns of such company shall be managed by not less than nine nor more than thirty directors, or trustees, who shall, respectively, be stockholders and at least one-half residents and citizens of the District of Columbia, and shall, except the first year, be annually elected by the stockholders at such time and place and after such published notice as shall be determined by the by-laws of the company, and said directors or trustees shall hold until their successors are elected and qualified.

SEC. 737. Officers.—There shall be a president of the company, who shall be a director, also a secretary and a treasurer, all of whom shall be chosen by the directors or trustees: **PROVIDED**, That only one of the above-named offices shall be held by the same person at the same time. Subordinate officers may be appointed by the directors or trustees, and all such officers may be required to give such security for the faithful performance of the duties of their offices as the directors or trustees may require.

SEC. 738. By-Laws.—The directors or trustees shall have power to make such by-laws as they deem proper for the management or disposal of the stock and business affairs of such company, not inconsistent with the provisions of this subchapter, and prescribing the duties of officers and servants that may be employed, for the appointment of all officers,

and for carrying on all kinds of business within the objects and purposes of such company.

SEC. 739. Dividends.—If the directors or trustees of any company shall declare or pay any dividend the payment of which would render it insolvent, or which would create a debt against such company, they shall be jointly and severally liable as guarantors for all of the debts of the company then existing, and for all that shall be thereafter contracted, while they shall, respectively, remain in office.

SEC. 740. If any of the directors or trustees shall object to declaring such dividends or the payment of the same, and shall at any time before the time fixed for the payment thereof file a certificate of their objection in writing with the secretary of the company and with the recorder of deeds of the District they shall be exempt from liability prescribed in the preceding section.

SEC. 741. Liabilities exceeding Assets.—If the liabilities of any company shall at any time exceed the amount of the fair cash value of the assets, the directors or trustees of such company assenting thereto shall be personally and individually liable for such excess to the creditors of the company after the additional liability of the stockholders has been enforced.

SEC. 742. Executors, etc., holding Stock.—No person holding stock in such company as executor, administrator, guardian, or trustee shall be personally subject to any liability as stockholder of such company, but the estate and funds in the hands of such executor, administrator, guardian, or trustee, shall be liable in like manner and to the same extent as the testator or intestate or the ward or the person interested in such trust fund would have been if he had been living and competent to act and hold the stock in his own name.

SEC. 743. Increase of Capital Stock.—Any corporation which may be formed under this subchapter may increase its capital stock by complying with the provisions of this subchapter to any amount which may be deemed sufficient and proper for the purposes of the corporation.

SEC. 744. Copy of Certificate to be Evidence.—A copy of any certificate of incorporation filed in pursuance of this subchapter, certified by the recorder of deeds to be a true copy and the whole of such certificate, shall be received in all courts and places as presumptive legal evidence of the facts therein stated.

SEC. 745. No Bond to be required when Company appointed Executor, etc., except, etc.—No bond or other collateral security, except as herein-after stated, shall be required from any trust company incorporated

under this subchapter for and in respect to any trust, nor when appointed trustee, guardian, receiver, executor, or administrator, with or without the will annexed, collector, committee of the estate of a lunatic or idiot, or other fiduciary appointment; but the capital stock subscribed for or taken, and all property owned by said company and the amount for which said stockholders shall be liable in excess of their stock, shall be taken and considered as the security required by law for the faithful performance of its duties and shall be absolutely liable in case of any default whatever; and in case of the insolvency or dissolution of said company the debts due from the said company as trustee, guardian, receiver, executor, administrator, collector, or committee of the estate of lunatics, idiots, or any other fiduciary appointment shall have a preference.

SEC. 746. Bond may be Required.—The supreme court of the District of Columbia, or any justice thereof, shall have power to make orders respecting such company whenever it shall have been appointed trustee, guardian, receiver, executor, administrator, with or without the will annexed, collector, committee of the estate of a lunatic, idiot, or any other fiduciary, and require the said company to render all accounts which might lawfully be made or required by any court or any justice thereof if such trustee, guardian, receiver, executor, administrator with or without the will annexed, collector, committee of the estate of a lunatic or idiot, or fiduciary were a natural person. And said court or any justice thereof, at any time, on application of any person interested, may appoint some suitable person to examine into the affairs and standing of such companies, who shall make a full report thereof to the court, and said court, or any justice thereof, may at any time, in its discretion, require of said company a bond with sureties or other security for the faithful performance of its obligations, and such sureties or other security shall be liable to the same extent and in the same manner as if given or pledged by a natural person.

SEC. 747. Corporations organized under State Laws.—No corporation or company organized by virtue of the laws of any of the States of this Union and having its principal place of business within the District of Columbia shall carry on in the District of Columbia any of the kinds of business named in this subchapter without strict compliance in all particulars with the provisions of this subchapter for the government of such corporations formed under it, and each one of the officers of the corporation or company so offending shall be punished by fine not exceed-

ing one thousand dollars, or imprisonment not exceeding one year, or by both fine and imprisonment, in the discretion of the court.

SEC. 748. Right to Amend or Repeal reserved to Congress.—Congress may at any time alter, amend, or repeal this subchapter, but any such amendment or repeal shall not, nor shall the dissolution of any company formed under this subchapter, take away or impair any remedy given against such corporation, its stockholders or officers, for any liability or penalty which shall have been previously incurred.

Consent of Comptroller.—No corporation that is not now engaged in the business of banking in the District of Columbia shall, after the passage of this Act, be permitted to enter upon said business in the said District, nor shall any corporation now or hereafter engaged in the business of banking be permitted to establish branch banks in said District, until after it shall have secured the approval and consent of the Comptroller of the Currency; and each one of the officers of such corporation so offending shall be punished by a fine not exceeding \$1,000 or imprisonment not exceeding one year, or by both fine and imprisonment, in the discretion of the court.—Chap. 147 Statutes at Large, approved April 26, 1922.

SCHEDULE OF CHARGES COMPILED BY THE COMMITTEE
ON STANDARDIZATION OF CHARGES, TRUST COMPANY
DIVISION, AMERICAN BANKERS' ASSOCIATION

SCHEDULE ONE

TRUSTEE UNDER CORPORATE BOND ISSUE

1. *Acceptance Fee:* $1/10$ of 1% of amount of authorized issue. Minimum, \$100.00. For issues over \$1,000,000 this percentage should be reduced at the ratio of a 10% less charge for each \$1,000,000 or fraction thereof than charged on the preceding \$1,000,000, but this progressive reduction shall not in any event reduce the acceptance fee below $1/20$ th of 1% of the authorized issue.

2. *Annual Fee:* $1/40$ of 1% of amount of authorized issue (exclusive of bonds previously retired). Minimum, \$25.00. Annual fee to be prorated for fractional parts of years. Where issue is over \$1,000,000 this percentage should be decreased at the same ratio as the acceptance fee.

(a) *Partial Releases:* If release clause with Schedule, \$2.50 and up. If no release clause with Schedule, \$10.00 and up. Appraisers' Fees extra.

(b) *Receiving and Disbursing Release Funds:* (If bonds are retired, see below). $1/10$ of 1% of amount disbursed. Minimum, \$15.00.

(c) *Redemption of Bonds Before Maturity and Handling Sinking Fund Moneys and Retiring Bonds:* $1/5$ of 1% and advertising costs. Minimum, \$25.00.

(d) *Payment of Interest Coupons:* $3/4$ of 1% of amount disbursed; if Fiscal Agent, $3/8$ of 1%. (Many trust companies with banking departments make no charge if coupon money is on deposit for 30 days without interest.) This charge includes service required for income tax reports.

(e) *Holding and caring for insurance:* included.

3. *Certification of Bonds:* 50c per bond. (Or at option the following) \$1,000 bonds, \$1.00 each; \$500 bonds, 50c each; and \$100 bonds, 25c each. The acceptance fee to be reduced by the amount the certification fee exceeds in the aggregate an average of 50c per bond.

(a) Registration of Bonds: 50c each, including cancellation of registration. Where cancellation of registration or re-registration involves examination of Probate or other Court Proceedings, extra charge should be made.

4. *Reconveyance, Cancellation or Closing Fee:* 1/40 of 1% of amount of authorized issue (exclusive of bonds previously retired). Minimum, \$50.00.

(a) Cremation of Bonds and Coupons: Included in reconveyance fee if all cremated at one time; if in installments, charge extra as work demands.

(b) Payment of Principal as it Matures: 1/10 of 1% in addition to closing fee. (Many trust companies with banking departments make no charge for paying principal if money is on deposit for 15 days or more without interest.)

5. *Receiving and Disbursing Funds from Sale of Bonds under Order of Commissioner of Corporations, Public Service Commissioner, etc.:* 1% of amount received and disbursed.

NOTES

If proceedings are under jurisdiction of Bank Superintendent, Corporation Commissioner, or other public body or officer, extra charge should be made to cover examination of and to comply with requirements of these departments.

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE TWO

HOLDING TITLE TO REAL ESTATE UNDER TRUST DEED OR TRUST MORTGAGE TO SECURE ORDINARY DEBT OR LOAN

1. *Acceptance Fee:* \$1.00.

(a) Certification by Trustee of Notes as Being Notes Secured by Trust Deed or Mortgage: One note free, included in acceptance fee; additional notes 50c each.

2. *Reconveyance Fee:* (Including cancellation of notes):

\$2.00 if debt is less than \$10,000;

3.00 if debt is from \$10,000 to \$20,000

4.00 if debt is from 20,000 to 40,000

5.00 if debt is from 40,000 to 60,000

If debt over \$60,000, charge \$1.00 extra for each \$25,000 or fraction thereof.

If coupon notes are secured, fee 50% more in all cases.

3. *Trustee's Sale Upon Default, Including Deed:* Trustee's fee under ordinary sale of property (not court foreclosure), when trust deed or mortgage secures a sum—

Not exceeding	\$	500	\$	50
Over \$ 500, not exceeding		750		65
Over 750, not exceeding		1,000		80
Over 1,000, not exceeding		2,000		100
Over 2,000, not exceeding		3,500		125
Over 3,500, not exceeding		5,000		150
Over 5,000, not exceeding		7,500		200
Over 7,500, not exceeding		10,000		250

and 2% of all amounts of principal exceeding \$10,000. Where Court Foreclosure is required by law these fees should be increased from 10% to 20%.

4. *Certificate of Redemption or Trustee's Deed:* (After Court Foreclosure) \$2.50:

(a) Other Charges: Advertising, posting expenses, and court costs, if any, extra.

(b) Special Services: Extra, according to service rendered.

NOTES

Where any of these fees are fixed by law there should be no deviation from the legal rate.

The charges in this Schedule do not include any attorneys' fees in connection with the establishment and maintenance of the trust.

For fuller explanation of charges see notes following Schedules.

SCHEDULE THREE

HOLDING TITLE TO COLLATERAL FOR INDIVIDUALS OR CORPORATIONS TO SECURE NOTE ISSUE (DOES NOT INCLUDE ORDINARY CORPORATE BOND ISSUE OR ORDINARY DEED OF TRUST ON REAL ESTATE)

1. *Acceptance Fee:* 1/10 of 1% of authorized note issue. On issues over \$1,000,000 this percentage should be reduced at the ratio of 10% less charge for each \$1,000,000 or fraction thereof than charged on

the preceding \$1,000,000, but this progressive reduction shall not in any event reduce the acceptance fee below $\frac{1}{20}$ of 1% of the authorized issue.

2. *Annual Fee:* Where trustee has duty or responsibility in connection with the collection and distribution of interest or principal of the collateral, ordinarily $\frac{1}{6}$ of 1% of market value of collateral. Where collateral consists of 1st and 2nd mortgages, land contracts, etc., payable in installments, the fee should follow collection fees in Schedule Nine. Where trustee has no duty as to collection of principal or interest of the collateral, $\frac{1}{40}$ of 1%. Annual fee to be prorated to cover fractional parts of years. Minimum, \$25.00. Where collateral is clean first lien securities and over \$1,000,000 in value, these percentages should be reduced at the same ratio as the Acceptance Fee.

(a) Partial Trust Conveyance, Assignment or Satisfaction: \$2.50 each and up.

(b) Receiving and Disbursing Income: Included in Annual Fee.

(c) Delivery or Sale on Default: If sale is made to pay defaulted obligation, by court proceeding or otherwise, a fee should be charged on the same basis as sales made under trust deeds, as per Schedule Two.

3. *Certification of Coupon Notes:* 50c per note (or at option the following): \$1,000 note, \$1.00 each; \$500 note, 50c each; and \$100 note, 25c each. The acceptance fee is to be reduced by the amount the certification fee exceeds in the aggregate an average of 50c per note.

4. *Closing Fee:* $\frac{1}{40}$ of 1% of value of collateral on hand. Minimum, \$50.00.

NOTES

For fees for other services in connection with note issue: See fees for similar services in Schedule One. Other charges should be made according to service rendered.

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For further explanation of charges see notes following Schedules.

SCHEDULE FOUR

AGENT FOR THE REGISTRATION OF CORPORATE STOCK

1. *Acceptance Fee:* Minimum, \$100.00 to cover preliminary work, investigation, etc.

Note: For an additional class of stock handled for a corporation a further charge of 50% may be made.

2. *Annual Fee*: The trust shall earn a minimum of \$100.00 per year, which allows for 250 certificates.

3. *Registration of Stock Certificates*: 25c each, on all over 250 certificates per year.

(a) Cancellation and Re-registration of Stock Held by Estate: 50c each, and if examination of Court Order or Court Proceedings required, additional charge should be made. Other charges should be made according to service rendered.

4. *Dividend Disbursing Agent*: See Schedule Five.

NOTES

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges see notes following Schedules.

SCHEDULE FIVE

AGENT FOR THE TRANSFER OF CORPORATE STOCK

1. *Acceptance Fee*: Minimum, \$100.00 to cover preliminary work, investigation, etc.

Note: For an additional class of stock handled for a corporation a further charge of 50% may be made.

2. *Annual Fee*: The Trust shall earn a minimum of \$150.00 per year, which allows for 100 certificates.

Note: This includes furnishing of three lists of stockholders per annum.

3. *Cancellation and Re-issuance of Certificates*: 50c each, for all above 100 certificates per year, and if examination of Court Order or Court Proceedings required, additional charges should be made.

(a) Other charges should be made according to service rendered.

4. *Dividend Disbursing Agent*: $\frac{3}{8}$ of 1% of amount disbursed and postage for each dividend, or, at option, the following:

1 to 250 checks	\$ 62.50
251 to 500 checks	100.00
501 to 750 checks	112.50
751 to 1000 checks	120.00
1001 to 2000 checks	200.00
2001 to 3000 checks	250.00

All checks over this latter number $7\frac{1}{2}$ c per check, and postage.

NOTES

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE SIX

AGENT FOR THE REGISTRATION OF CORPORATE BONDS (WHERE NOT TRUSTEE UNDER BOND ISSUE)

1. *Acceptance Fee*: Minimum, \$100.00 to cover preliminary work, investigation, etc.

2. *Annual Fee*: The trust must earn not less than \$50.00 per annum, which allows for 100 registrations.

3. *Registration of Bonds*: 25c each, for all above 100 registrations per year.

4. *Cancellation of Registration or Re-registration of Bond*: Involving examination of Letters Testamentary or Court Proceedings, an additional charge should be made.

(a) Other charges should be made according to service rendered.

NOTES

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE SEVEN

HOLDING TITLE TO REAL ESTATE (UNDER VOLUNTARY TRUST, WITH NO DUTY OR RESPONSIBILITY OTHER THAN TO CONVEY OR LEASE, AS DIRECTED) (USUAL HOLDING FOR SYNDICATE)

1. *Acceptance Fee*: 1/20 to 1/10 of 1% of market value of trust property, according to the size, value and number of parcels. Minimum \$10.00. The fee may be based on a charge for each certificate of beneficial interest issued, but the entire charge, however, to be not less than 1/20 of 1% of market value of trust property, with minimum as above.

2. *Annual Fee*: 1/40 to 1/20 of 1% of market value of trust property, according to size, number and value of parcels. Minimum, \$10.00. Annual fee to be prorated for fractional parts of years.

(a) Executing Leases and Partial Trust Conveyances: \$2.50 each.

(b) Transfer of Beneficial Interest: \$2.50 each.

(c) Other charges should be made according to service rendered.

3. *Closing or Distribution Fee:* $1/20$ of 1% of market value of property. Minimum, \$15.00. Extra charge where any of trustors have died prior to closing, to cover examination of Probate proceedings, etc., usually 1% of value of deceased's interest.

NOTES

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE EIGHT

HOLDING TITLE TO REAL ESTATE (UNDER VOLUNTARY TRUST WITH FULL DUTIES AND RESPONSIBILITIES OF MANAGEMENT, INCLUDING POWER OF SALE, ETC.)

1. *Acceptance Fee:* From $1/20$ to $1/10$ of 1% of the market value of trust property, according to the size, value, number and condition of parcels. Minimum: If material part of the trust property is improved, \$20.00; if trust property be unimproved, \$10.00. The fee may, however, be based on a charge for each certificate of beneficial interest issued, the entire charge, however, to be not less than $1/20$ of 1% of market value of trust property, with minimum as above.

2. *Annual Fee:* $5/7$ of 1% of market value of trust property, if material portion improved. Minimum, \$25.00.

$1/2$ of 1% if material part of trust property be unimproved. Minimum, \$15.00. Annual fee to be prorated for fractional parts of years.

(a) *Partial Distribution Before Close of Trust:* $1/2$ of 1% of amount distributed.

(b) *Executing Leases and Partial Trust Conveyances:* \$2.50 each and up.

(c) *Transfer of Beneficial Interest:* \$2.50 each.

(d) *Income Tax Reports:* \$2.50 each and up.

Note: This fee includes service for Examination for and Paying Taxes and Assessments; Collection of Rents and Income; Superintending and Making Repairs to Real Estate.

Note: Other charges should be made according to service rendered.

Note: Brokers' fee extra.

3. *Closing or Distribution Fee:* $1/20$ of 1% of market value of property conveyed or distributed, with a minimum of \$15.00 if the

closing or distribution be made during the lifetime of the trustor; or 1% of market value of property conveyed or distributed, with a minimum fee of \$50.00, if the closing or distribution be made after the death of the trustor.

NOTES

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE NINE

HOLDING TITLE TO REAL ESTATE SUBDIVISIONS (UNDER VOLUNTARY TRUST, EXECUTING CONTRACTS OF SALE AND DEEDS TO PURCHASERS, AND COLLECTING AND DISTRIBUTING PROCEEDS)

1. *Acceptance Fee:* 1/10 of 1% of the minimum sales price of the lots in the subdivision. Minimum, \$50.00, or the charge may be based on a fee of \$1.00 per lot in the subdivision with minimum as above.

(a) Accepting and Registering Assignments of Contracts: \$1.00 each, to be paid by assignor or assignee. (Note of this charge should be endorsed on contract.)

2. *Annual Fee:* The trust must produce an annual return from collections, conveyances, or otherwise, equal to 1/10 of 1% of the lowest authorized sale price of the trust property, with a minimum annual fee of \$50.00. Annual fee to be prorated for fractional parts of years.

(a) Executing Contracts (in Duplicate) and Conveyances: \$2.50 each.

(b) Transfer of Beneficial Interest: \$2.50 each.

(c) Income Tax Reports: \$2.50 each and up.

Note: Proceedings and actions to enforce or cancel contracts of sale, \$25.00 each. Other charges should be made according to service rendered.

Note: Brokers' fees extra.

3. *Collecting and Disbursing Installments of Sale Price:* If sale is for cash, or if principal payments do not exceed three in number, 1% to 2% of sale price, according to size of payments; if principal payments exceed three in number, 2% to 3%, according to size of payments. Mortgages given by purchasers to beneficiaries or assigned to beneficiaries, to cover principal payments, are, for the purpose of determining fees, to be treated as cash payments, but if held by the

Trustee and on same terms as contract, regular collection fees shall be charged.

4. *Closing or Distribution Fee:* $\frac{1}{4}$ of amount of acceptance fee, if all lots sold and collections made, with a minimum of \$25.00. If trust closed before all lots sold and collections made, $\frac{1}{10}$ of unearned fees, with a minimum of \$50.00.

NOTES

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE TEN

HOLDING CASH AND SECURITIES, TOGETHER WITH REAL AND PERSONAL ESTATE OF LIVING PERSON (UNDER VOLUNTARY TRUST, TO MANAGE, CONVERT, INVEST, RE-INVEST AND TO COLLECT AND DISTRIBUTE THE INCOME THEREOF) (COMMON FORM OF LIVING OR VOLUNTARY TRUST OF MIXED PROPERTIES)

1. *Acceptance Fee:* $\frac{1}{20}$ of 1% of market value of trust property. Minimum: If material part of trust property be improved, \$20.00; if trust property be unimproved, \$10.00; if principally cash and securities, \$10.00.

2. *Annual Fee:* $\frac{3}{5}$ of 1% of market value of mixed trust property. Minimum: If material part of trust property be improved, \$25.00; if material part of trust property be unimproved, \$15.00. If practically all of trust property is cash and securities, annual fee is $\frac{1}{2}$ of 1% per annum of value of trust property, with minimum of \$10.00. Annual fee to be prorated for fractional parts of years.

(a) Partial Distribution of Principal Before Close of Trust: $\frac{1}{2}$ of 1% of amount distributed.

(b) Executing Leases and Partial Conveyances: \$2.50 each and up.

(c) Transfer of Beneficial Interest: \$2.50 each.

(d) Income Tax Reports: \$2.50 each and up.

Note: This fee includes service for Investment, Examination for and Paying Taxes and Assessments; Collection of Interest, Rents and Other Income; Superintending and Making Repairs to Real Estate.

Note: Other charges should be made according to service rendered.

Note: Brokers' fees extra.

3. *Closing or Distribution Fee:* $\frac{1}{20}$ of 1% of market value of prop-

erty conveyed or distributed. Minimum, \$15.00, while trustor is living; thereafter 1% of the value of trust property. Minimum, \$50.00

NOTES

Charities free, if desired.

We would recommend where individuals are associated in administration of trusts with the Trust Company, that at least $\frac{1}{2}$ of the compensation shall accrue to the Trust Company and $\frac{2}{3}$ of compensation in case only one individual is associated in the management.

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE ELEVEN

COURT TRUSTS (SUCH AS TRUSTS CREATED BY WILLS, APPOINTMENT OR COURT DECREE. FEES FOR ADMINISTRATION OF ESTATES NOT SCHEDULED. WHERE FEES ARE FIXED BY LAW THERE SHOULD BE NO DEVIATION FROM LEGAL RATE, EXCEPT WHERE EXTRAORDINARY SERVICES ARE PERFORMED, AND IN SUCH CASES EXTRA COMPENSATION SHOULD BE REQUESTED AS MAY BE PROPER)

1. *Annual Fee:* Where the property is mixed property $\frac{3}{5}$ of 1% of the appraised value. Minimum, \$15.00. Where principally cash or securities, $\frac{1}{2}$ of 1% of appraised value. Minimum, \$10.00. Annual fee to be prorated for fractional parts of years.

(a) *Partial Distribution of Property and Funds Before Closing Trust:* $\frac{1}{2}$ of 1% of amount distributed.

Note: This fee includes service for Preparing Annual and Special Reports to Court; Preparing and Executing Conveyances, Leases, etc.; Examination for and Paying Taxes and Assessments; Collection of Interest, Rents and Other Income; Investing Funds; Income Tax Reports; Superintending and Making Repairs to Real Estate.

Note: Brokers' fees extra.

2. *Closing or Distribution Fee:* Attorney fee, plus $\frac{1}{2}$ of 1% of appraised value of property distributed. Minimum, \$25.00.

NOTES

Charities free, if desired.

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

SCHEDULE TWELVE

AGENCIES AND ATTORNEY IN FACT—GENERAL AND SPECIAL
(A) AGENCIES INVOLVING HANDLING OF REAL AND PERSONAL PROPERTY
(NOT FUNDS OR SECURITIES)

1. *Acceptance Fee:* $1/20$ of 1% of market value of trust property. Minimum, \$10.00.

2. *Annual Fee:* $1/3$ to $3/5$ of 1% of value of property in agency, according to estimated work and responsibility prorated to cover fractional parts of years. Minimum, \$15.00.

Note: This fee includes service for Managing Real and Personal Estate, Payment of Taxes, Insurance Matters, Repairs, etc.; Collection and Disbursement of Rents and Other Income.

3. *Closing Fee:* $1/20$ of 1% of market value of property. Minimum, \$10.00.

NOTES

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

(B) (AGENCIES INVOLVING THE COLLECTION, INVESTMENT AND DISTRIBUTION OF PRINCIPAL AND INTEREST OF FUNDS AND SECURITIES)

1. *Acceptance Fee:* $1/20$ of 1% of the market value of property. Minimum, \$10.00.

2. *Annual Fee:* $1/4$ of 1% of principal in cases in which the agent does not make the investment. If agent makes the investment, then the annual charge should thereafter be $1/2$ of 1% of the principal invested ($1/4$ of 1% of principal still standing as the annual charge against funds not invested by Trustee). Minimum, \$10.00. The annual fee should be prorated to cover fractional parts of years.

(a) Income Tax Reports: \$2.50 each and up.

Note: This fee includes service for Investment of Funds, Collection and Disbursement of Principal and Income.

Note: Other charges should be made according to service rendered.

Note: Brokers' fees extra.

3. *Closing Fee:* $1/20$ of 1% of market value of property. Minimum, \$10.00.

NOTES

The changes in this Schedule do not include any Attorneys' fees in connection with the establishment or maintenance of the trust.

For fuller explanation of charges, see notes following Schedules.

MISCELLANEOUS ITEMS

ESCROW DEPOSITS INVOLVING RECEIPT AND SAFEGUARDING OF FUNDS
AND SECURITIES AND THE SAFE DELIVERY OF SAME

Annual Fee: Where securities are held, annual fee of $\frac{1}{40}$ of 1% of the par value of the principal amount of securities held, with a minimum charge of \$25.00 per year.

Larger fees may be charged where services rendered and responsibility assumed justify it.

Where Deed or Securities are Delivered and money collected and disbursed, fee should be $\frac{1}{10}$ of 1% of the amount collected.

DEPOSITARY OF SECURITIES INVOLVING RECEIPT, HOLDING AND SAFE-
GUARDING OF SECURITIES DEPOSITED, COLLECTING INTEREST AND
DIVIDENDS, DISBURSING INCOME, ETC.

Annual Fee: $\frac{1}{10}$ of 1% of the par value of principal amount of bonds held, and $\frac{1}{20}$ of 1% of the par value of shares of stock held. Minimum annual fee, \$25.00.

TRUSTEE UNDER LEASE OR TRUSTEE UNDER A TRUST AGREEMENT IN
CONNECTION WITH A LEASE INVOLVING HOLDING AND COLLECTING
INSURANCE POLICIES, HOLDING COLLATERAL AND ALSO SPECIAL
SERVICE IN CASE OF DEFAULT

Annual Fee: Minimum, \$25.00 and special fees for any services in case of default or otherwise.

Where Collateral Is Held, annual fee of $\frac{1}{40}$ of 1% of the par value of securities. Minimum annual fee, \$25.00.

Where Insurance Policies Are Held, annual charge of $\frac{1}{20}$ of 1% of the amount of insurance held up to \$500,000.00 and where the amount of insurance exceeds \$500,000.00 this rate may be decreased. Minimum annual charge, \$25.00.

Where Proceeds of Fire Insurance Are Collected and Disbursed, minimum fee of $\frac{1}{2}$ of 1% of the amount disbursed.

ACTING AS AGENT FOR CORPORATIONS OR AS CORPORATE SECRETARY OR TREASURER INVOLVING HOLDING OF SECURITIES AND CASH, MANAGING REAL ESTATE, HOLDING MEETINGS OF STOCKHOLDERS AND DIRECTORS, KEEPING CORPORATE RECORDS, MAKING VARIOUS REPORTS AND TAX RETURNS, DISTRIBUTION OF EARNINGS, ETC.

Minimum annual charge of \$50.00. Larger fee to be charged where services warrant it.

If Real Estate Agent Is Employed, the usual commissions to be paid to such agent in addition to other fees.

TRUSTEE FOR CORPORATIONS IN LIQUIDATION AND FOR THE ORGANIZATION AND REORGANIZATION OF CORPORATIONS, DEPOSITARY FOR SYNDICATES, ETC.

Acceptance Fee: Not fixed. Special fees to be charged for this service in proportion to the amount of work involved and responsibility assumed, such fees to be fixed with reference to each particular case.

If Securities Are to be Held, an annual fee should be charged as in other instances at the rate of $\frac{1}{40}$ of 1% of the par value of such securities, with a minimum of \$25.00 per year.

If negotiable Interim Receipts or Other Certificates of Deposit are to be issued and transferred, same fees for such services are to be charged as for the issuance and transfers of certificates of stock, as set out in Schedule No. 5.

TRUSTEE UNDER INDENTURE OF TRUST COVERING LIFE INSURANCE

(a) Where Life Insurance Is Deposited under Indenture of Trust, with only duty imposed upon the trustee to collect insurance, pay inheritance and other taxes, and to distribute the fund then remaining to certain beneficiaries.

Acceptance Fee: Minimum, \$10.00. A Commission of 2% upon disbursements of the fund, either principal or income.

(b) Where a Trust of This Kind is created with active duties imposed upon the trustee not only to collect the insurance and pay inheritance taxes, but to invest the fund, collect the income, and distribute income and principal:

Acceptance Fee: Minimum, \$10.00.

A commission of $\frac{1}{2}$ of 1% upon the market value of principal to be made annually, and the closing fee of $\frac{1}{2}$ of 1% of the principal when distributed.

(Note: It has been suggested with reference to insurance trusts that it is not customary to make an acceptance charge, and that the same would be inadvisable, but that if the trust is terminated by the Grantor during his lifetime, and before the same really becomes effective, a fee then should be charged for services in accepting the trust, examining the documents, entering the same on the books, and for the safekeeping of the insurance policies.)

TRUSTEE OR DEPOSITARY FOR BONDHOLDER'S COMMITTEE INVOLVING
RECEIPT AND SAFEKEEPING OF SECURITIES DEPOSITED; ISSUANCE
AND TRANSFER OF NEGOTIABLE INTERIM RECEIPTS, ETC.

Acceptance Fee: Minimum, \$10.00.

Annual Fee: $1/40$ of 1% of the par value of securities deposited, with a minimum of \$100.00 per year.

Negotiable Interim Receipts or Certificates of Deposit, fee of 25c for each certificate issued or transferred to be charged in addition to other fees. Other fees should be charged for special services rendered.

ACTING AS VOTING TRUSTEE FOR CORPORATE STOCK OR AS DEPOSITARY
FOR VOTING TRUSTEES FOR SUCH STOCK INVOLVING THE RECEIPT
AND SAFEKEEPING OF CERTIFICATES OF STOCK, ISSUANCE AND TRANSFER
OF VOTING TRUST CERTIFICATES, ETC.

Acceptance Fee: Minimum, \$10.00.

Annual Fee: $1/40$ of 1% of the par value of securities deposited, with minimum annual fee of \$100.00.

Where Voting Trust Certificates are issued and transferred, fee of 25c for each certificate transferred to be charged in addition to other fees.

Other fees may be charged for special services rendered.

TRUSTEE IN CONNECTION WITH COUNTY AND MUNICIPAL BONDS
25c to 50c per \$1000.

The charges in this Schedule do not include any attorneys' fees in connection with the establishment or maintenance of the trust.

NOTES

Acceptance Fee: This is a fee to cover preliminary negotiations, consultations with principals, agents and attorneys, investigation of

the contemplated proposition and trust assets, personal examination of real estate and examination of the necessary documents and papers to institute the trust and place all matters in condition to begin to administer the trust. It is not a part of the first annual fee.

Annual Fee: This fee embraces all ordinary services in connection with the administration of the trust, not otherwise indicated in the schedules. It includes the ordinary management of the trust property, the usual accounting involved, together with the usual periodical statements to beneficiaries. It likewise covers consultations, correspondence, postage, ordinary supplies, returns for tax assessments, and all dealings with the public and public officials. It should be prorated for fractional parts of years and is independent of the Acceptance and Closing Fee. Extraordinary services are not included in Annual Fee and should be charged extra.

Closing Fee: This fee covers all the usual services of the Trustee involved in terminating the trust, including the distribution of the assets of the trust to those entitled. In case of the death of one or more of the trustors or beneficiaries prior to closing the trust it involves the necessary examination of Court Proceedings, proofs or other data to determine who are the legal distributees.

Attorney Fees: These schedules contemplate the fees which inure solely to the trust company and are computed to be such fees as are fair and equitable to the public and reasonably remunerative to the company, based on the assumption that the trust company is to render complete and efficient service. They do not include fees of attorneys, whether such attorney be the attorney of the trust company, the attorney of the trustor or the attorney of the beneficiaries. No attempt is herein made, or should be made, to encroach upon the proper and legitimate field of the lawyer.

All reasonable fees of attorneys, whether for services in litigation, in preparing documents, or giving legal counsel, should be allowed, charged and paid them, independent of the fees set forth in the schedules. The trust company should fully coöperate with the attorney and endeavor to protect him in every particular.

Broker's Fee: Where brokers are employed by the trustee to buy or sell stocks, bonds, real or personal property, the ordinary fees of such brokers are in addition to the fees set forth in the schedules.

Flat Fees: Where it may seem advisable or necessary to quote a given amount of compensation for all of the services to be rendered in a particular trust, this can be readily done by computing the total

of all of the fees estimated to be received under the schedule. Some trust companies compute the total estimated earnings of the trust and divide the same by the number of years the trust is to run and quote the result as an annual fee.

Banking Departments: The fees in these schedules are computed as those proper and necessary for a responsible trust company to charge, without consideration of any profit accruing from the trust to any other department of the institution. Where a determinable or substantial profit or benefit accrues to the banking or other department from the particular trust business under consideration a proper allowance for same may be made, provided the trust as a whole is administered at a reasonable profit.

Adopted October 19, 1920.

Second printing, 1924.

NEW YORK STOCK EXCHANGE
REQUIREMENTS FROM APPLICANTS FOR LISTING STOCKS OR BONDS
July 1, 1924

An application, *conforming to these requirements*, signed by an executive officer of the applying corporation, voting trustees, or depositary committees, and nine printed or typewritten copies must be filed with the Secretary of the Exchange at least five days prior to date set for consideration.

Applications must be accompanied by the required papers and agreements, and by a check for one hundred dollars for each \$1,000,000, or portion thereof; of each class of security (including stock of the par value of \$100 per share) or where stock of a par value of less than \$100 per share check for one hundred dollars for each 10,000 shares or portion thereof, or where stock without nominal or par value check for one hundred dollars for each 10,000 shares or portion thereof; checks to be drawn to the order of "Treasurer, New York Stock Exchange." In addition, companies making application are required to pay cost of printing. Printer's bill will be submitted directly to the applicant.

An application for listing of Governmental, State, County or Municipal securities must be signed by a properly accredited official or by financial representatives, and be accompanied by required check as above and required papers.

Specimen applications furnished on request.

The employees of the committee on stock list are instructed to assist in the preparation of applications to list whenever so requested. No charge will be made for such service.

REQUIREMENTS FOR ORIGINAL LISTING

Stock.

For form of certificates eligible to be listed under this classification, and list of papers to be furnished, see following pages.

Every application for an original listing of capital stock shall recite:

A Where incorporated.

B (1) Amount applied for (whether temporary or permanent certificates); (2) authorized issue.

C (1) Date of charter; (2) duration.

D (1) Business; (2) special rights or privileges under charter or by-laws.

E (1) Whether capital stock is full paid; (2) non-assessable; and (3) whether liability attaches to shareholders.

F (1) Issues (by classes), dividend rate and par value; (2) total amount of each, authorized and issued; (3) increases and authority therefor, including (a) action by stockholders, (b) by directors and (c) by public authorities, etc.; (4) amount unissued, (a) options or contracts on same, (b) specific reservation for conversion.

G If preferred stock; (1) whether cumulative or non-cumulative; (2) preferences, including (a) voting power; (b) dividends; (c) distribution of assets on dissolution or merger; (d) redemption; (e) convertibility; (f) special provisions.

H Voting power of obligations of debt.

I (1) Purpose of issue; (2) application of proceeds; (3) amount issued for securities, contracts, property; description and disposition; (4) additional property to be acquired, with particulars, as required by paragraph *N*.

J (1) History of corporation; (2) of predecessor, companies, or firms, with location and stock issues (by classes); (b) conditions leading to new organization.

K Tabulated list of constituent, subsidiary, owned or controlled companies showing (a) date of organization; (b) where incorporated; (c) duration of charter; (d) business and (e) capital stock issues (by classes), par value, amount authorized, issued, owned by parent company.

L (1) Mortgage, and (2) other indebtedness showing, (a) date, (b) maturity, (c) interest rate, (d) convertibility, (e) redemption by sinking fund or otherwise, (f) amount authorized, and (g) amount issued; (3) similar information regarding mortgage and other indebtedness of constituent, subsidiary, owned, or controlled companies.

M Other liabilities, joint and several, (1) guaranties, (2) leases, (3) traffic agreements, (4) trackage agreements, (5) rentals, (6) car trusts, etc., (7) terms of each, and provision for payment; (8) similar description of other agreements or easements; (9) similar information as to constituent, subsidiary, owned or controlled companies.

N (1) Description, location, nature and acreage of property, (a) owned in fee; (b) controlled; (c) leased; (2) railroads, mileage completed, operated and contemplated; (3) equipment; (4) character of buildings and construction; (5) tabulated list of franchises showing (a) where granted, (b) date, (c) duration, (d) purpose; (6) timber, fuel or mining lands, water rights; (7) similar information as to constituent, subsidiary, owned or controlled companies.

O Policy as to depreciation.

P (1) Character and amount of annual output for preceding five years; (2) estimated output (character and amount) for current year; (3) number of employees.

Q (1) Dividends paid or declared; (2) by predecessor, and constituent, subsidiary, owned or controlled companies.

R Financial statements; (1) earnings for preceding five years, if available with interest charges, depreciation and federal taxes; (2) income and surplus account of recent date for at least two years, if available; (3) balance sheets of same date; (4) balance sheet giving effect to recent financing, if any; (5) similar accountings for predecessor, constituent, subsidiary, owned or controlled companies; (6) corporations consolidated within one year previous to date of application, income and surplus account and balance sheet of all companies merged and balance sheet of applying corporation; (7) if in hands of receiver within one year previous to date of application, (a) income account and balance sheet of receiver at time of discharge, and (b) balance sheet at close of receivership.

S Agreements contained on page 496.

T Fiscal year.

U Place and date of annual meeting.

V Location of principal and other offices.

W Names of (1) directors, classified, with addresses; (2) officers; (3) transfer agents, with addresses; (4) registrars, with addresses.

In addition to the above, applications from corporations which own or operate mines must recite:

A Patented and unpatented claims, by numbers.

B (1) Geological description of country; (2) location and description of mineral and other lands; (3) ore bodies; (4) average value of ore; (5) character and analysis; and (6) methods of treatment.

C History of workings, (1) results obtained; (2) production each year.

D (1) Ore reserves compared with previous years showing separately as to character and metal content; (2) estimate of engineer as to probable life of mines; (3) probabilities by further exploration.

E (1) Provisions for smelting and concentration; (2) proximity of property to railway or other common carrier.

F Properties in process of development; income account if available; guaranties for working capital and for completion of development in event income account not available.

G Total expenditures for preceding five years for acquisition of new property, development, proportion charged to operations each year.

H (1) Policy as to depletion; (2) acquisition of new property; (3) new construction and development.

I Production by tons, number of tons of ore treated, average assay yield, percentage of extraction, recovery per ton of ore, for preceding five years, if available.

In addition to the above, applications from corporations which own or operate oil and gas wells must recite:

A (1) Brief history of oil field; (2) geological description of country; (3) character and gravity of oil.

B (1) Total area of oil land (developed and undeveloped), (*a*) owned, (*b*) leased, (*c*) controlled, (*d*) proven, (*e*) under exploitation, (*f*) royalties.

C (1) Number of wells (oil or gas) on each property, (*a*) in operation, (*b*) drilling, (*c*) contemplated; (2) average depth of wells drilled (*a*) shallowest, (*b*) deepest, (*c*) probable life; (3) whether oil sands are dipping.

D (1) Gross daily production—initial and present; (2) annual gross production from each property for preceding five years, if available; (3) estimated gross production for current year.

E (1) Storage, capacity and location; (2) (*a*) amount of oil stored, (*b*) character, (*c*) value; (3) pipe line, (*a*) gauge, (*b*) capacity, (*c*) mileage.

F (1) Refineries, (*a*) capacity, (*b*) acreage, (*c*) employees, (*d*) products and by-products.

G Properties in process of development, income account if available, guaranties for working capital and for completion of development in event income account not available.

H Total expenditures for preceding five years for acquisition of new property, well drilling and development, proportion charged to operations each year.

I (1) Policy as to depletion; (2) acquisition; and (3) development of new properties.

(Note: For requirements as to voting trust or stock trust certificates, or certificates of deposit, see Page 493.)

Bonds.

For form of securities eligible to be listed under this classification, and for list of papers to be furnished, see following pages.

An application for an original listing of bonds shall recite all information required for listing stock, and

A (1) Full title; (2) amount applied for (whether temporary or permanent), denominations and numbers; (3) amount authorized and outstanding, authority therefor, including (*a*) action by stockholders, (*b*) directors, and (*c*) public authorities, etc.; (4) whether bonds are coupon (registerable as to principal) or registered, interchangeable or exchangeable; (5) exchangeability or convertibility into other securities, and terms.

B Names and addresses of trustees.

C (1) Date of issue and maturity; (2) interest rate; (3) places at, and dates for payment of interest and principal; (4) where registerable or transferable; (5) kind and standard of money, and options; (6) tax exemption; (7) whether redeemable or purchasable in whole or part by sinking fund or otherwise, showing (*a*) dates, (*b*) price, (*c*) duration and place of published notice; (8) specified reservation of stock for conversion.

D Provisions for declaration of principal due and payable in event of default of payment of interest, or other defaults, and waiver; percentage of outstanding bonds controlling trustee.

E Purpose of issue and application of proceeds, similar to that called for by Paragraph *I* of the Requirements for Listing Stock; provisions as to additional issue.

F Disposition of bonds refunded, redeemed or purchased for sinking fund, and mortgage securing same.

G Mortgage or indenture provisions for (1) serial issues; (2) values in United States gold coin; (3) issuance in foreign languages and (4) that the English version governs; (5) terms of exchangeability of bonds payable in foreign places for bonds payable in United States or vice versa.

H (1) Security—Mortgage, indenture of trust, or other agreement; and, (2) liens; (*a*) properties covered, (*b*) mileage of railway lines, (*c*) buildings, (*d*) equipment, (*e*) securities, (*f*) rights, (*g*) privileges, (*h*) titles, (*i*) franchises, (*j*) leases, etc.; (3) other liens covering same or any part of same properties; (4) guaranty and terms.

I Any unusual provisions or covenants contained in mortgage, or deed of trust.

Requirements for Listing of Additional Amounts.

For list of papers to be furnished, see page 494.

Refer to previous applications and last application by number and date, and recite:

A Where incorporated.

B (1) Amount applied for; (2) amounts authorized and outstanding; (3) authority for issue, including (*a*) action by stockholders, (*b*)

by directors, and (c) by public authorities, etc.; (4) total amount applied for.

C (1) Purposes of issue; (2) application of proceeds; (3) amount, description and disposition of securities exchanged for new issues; (4) additional property acquired or to be acquired, with particulars as required by paragraph *N* of the Requirements for Listing Stock.

D (1) Dividends paid and declared; also by constituent, subsidiary, owned or controlled companies; since previous application.

E Changes, if any, in (1) charter, (2) by-laws, or (3) capitalization since previous application.

F Changes in property, if any, since previous application.

G (1) Character and amount of output since previous application or earnings as in application for original listing; (2) estimated output (character and amount) for current year; (3) number of employees.

H Income account, surplus account and balance sheet of recent date, also for constituent, subsidiary, owned, or controlled companies, or a consolidated income account, consolidated surplus account and a consolidated balance sheet.

I Policy as to depreciation and depletion.

J Fiscal year, place and date of annual meeting, location of offices, and names of officials as covered by Paragraphs *T*, *U*, *V* and *W* on page 490.

(Note: "When a corporation purposes to increase its authorized capital stock, thirty days' notice of such proposed increase must be officially given to the Exchange, before such increase may be admitted to dealings.")

(Note: "When the capital stock of a corporation is increased through conversion of convertible bonds already listed, the issuing corporation shall give immediate notice to the Exchange and the Committee on Stock List may, thereupon, authorize the registration of such shares and add them to the list.")

Requirements for Listing of Certificates of Deposit, Voting Trust or Stock Trust Certificates, Etc.

For form of certificates eligible to be listed under this classification, and for list of papers to be furnished, see following pages.

Every application for the listing of certificates of deposit, voting trust or stock trust certificates, etc., shall recite:

A (1) Name of applicant; (2) amount applied for (whether temporary or permanent certificates); (3) depository; (4) security deposited and whether listed; (5) registrar.

B (1) Date of agreement; (2) names of committee, or voting trus-

tees; (3) terms of trust; (4) powers and duties of committee, trustees, or depositary.

C Reasons for deposit.

D (1) Duration of trust or deposit; (2) extensions or limitations; (3) final date of deposits; (4) provision for deposits without penalty for approximately thirty days after listing, or if no time limit for deposit of securities without penalty, is fixed, an agreement that approximately thirty days' notice of such limitation of time shall be published and given to the Stock Exchange; (5) date of presentation of plan; (6) provisions for dissent and withdrawal; (7) percentage necessary to adoption; (8) pro rata charges; (9) provisions for return of securities (or equivalent); (10) provision for payment of interest, dividends, etc.

E Applications to list Voting Trust or Stock Trust Certificates to recite financial statements of company as in paragraph *R* on page 490.

F Agreement to deliver definitive securities at termination of Voting Trust or Voting Trust to be extended.

G Agreement to have definitive securities listed.

H Agreement by Voting Trustees to have Company publish its financial statements.

I Agreements contained on page 496.

(Note: Applications to list voting trust or stock trust certificates and certificates of deposit for securities not a delivery on the Stock Exchange, must, in addition, comply with the Requirements.)

Applications for each class of deposited securities shall be separate and certificates issued of distinctive colors

Papers to Be Filed with Applications.

In addition to application for listing, the following papers must be filed:

FOR STOCKS:

1. Three copies of charter, with amendments to date, one copy attested by proper public authority.
2. Three copies of by-laws, with amendments to date, one copy attested by an executive officer of corporation.
3. Three copies of leases, franchises, easements and special agreements, one copy of each attested by an executive officer of corporation.
4. One copy of resolutions of stockholders and directors and copy of proper public authority authorizing issue, each attested by an executive officer of corporation.
5. One copy of resolutions of stockholders or directors, and copy

of proper public authority, authorizing issue of stock on conversion of other securities, attested by an executive officer of corporation.

6. One copy of resolutions of stockholders or directors directing specific reservation of authorized stock for conversion, attested by an executive officer of corporation.

7. One copy of resolutions of stockholders, board of directors or executive committee, attested by an executive officer of corporation, authorizing, by name, official to appear for listing securities (form may be had on application).

8. Opinion of counsel (not an officer or director of the corporation) as to legality of (a) organization, (b) authorization, (c) issue, and (d) validity of securities. *The Committee will not accept the opinion of an officer or director of an applying corporation nor of a firm in which the officer or director is a member, as counsel on any legal question affecting the corporation; nor will it accept the opinion of an officer or director of a guarantor corporation, nor of a firm in which the officer or director is a member, on any legal question affecting the issuance of guaranteed securities.*

9. Six copies of detailed distribution of securities, one certified, (form may be had on application).

10. One copy of resolution appointing transfer agent and registrar, attested by an executive officer of corporation.

11. Certificate of registrar of amount of securities registered at date of application.

12. Report of qualified engineer covering actual physical condition of property at recent date.

13. Map of property and contemplated extensions.

14. Specimens of all securities to be listed.

15. Questionnaire (form may be had on application).

16. Certified copy of income account, surplus account and balance sheet contained in application.

17. Agreements.

FOR BONDS:

18. All papers required for listing stocks and also ten copies of the mortgage or indenture, one copy (a) certified to by trustee, (b) with copies of all certificates of proper recording.

19. Trustees' certificate required on page 498.

20. One copy of resolutions of stockholders or directors, and copy of proper public authority, authorizing issue of stock on conversion of bonds, attested by an executive officer of corporation.

21. One copy of resolution of stockholders or directors directing specific reservation of authorized stock for conversion, attested by an executive officer of corporation.

22. Certificate of disposition of securities redeemed or refunded.

23. Certificate as to collateral deposited.

24. Certified copy of release or satisfaction of underlying mortgages.

FOR SECURITIES OF REORGANIZED CORPORATIONS:

1. All papers required for listing stocks and bonds. *Opinion of counsel shall state that proceedings have been in conformity with legal requirements, that title to property is vested in new corporation and is free and clear from all liens and incumbrances, except as distinctly specified; and also as to equities of securities of predecessor corporation.*

2. Certified order of court confirming sale on foreclosure or other authority for reorganization.

3. Certified copy of plan of reorganization.

4. Certified income and surplus account and balance sheet at close of receivership, if available.

5. Certified balance sheet at date of reorganization.

FOR ADDITIONAL AMOUNTS:

1. Nos. 4, 5, 6, 7, 8, 9, 11, 15, 16, 17, of papers required for original listings.

2. Nos. 1, 2, 3, 10, 12, 14, of said papers for stock, *if any changes have occurred therein since previous application.*

3. Nos. 1, 2, 3, 12, 14, 15, 16, 17, 19, 20, 21, 22, 23, 24, of said papers for bonds, *if any changes have occurred therein since previous application.*

4. Certified copy of proper public authority for increase.

FOR CERTIFICATES OF DEPOSIT, VOTING TRUST, ETC.:

1. Papers required for listing stocks and bonds.

2. Certified copies of any legal proceedings and court orders.

3. Three copies of deposit or trust agreement, one certified to by proper authority.

4. Three copies of circulars, issued by trustees or committee, one certified to by proper authority.

5. Certificates of amounts deposited.

Agreements.

To be made part of applications where applicable:

1. Not to dispose of an integral asset or its stock interest in any constituent, subsidiary, owned or controlled company, or allow

any of said constituent, subsidiary, owned or controlled companies to dispose of an integral asset or stock interest in other companies unless for retirement and cancellation, without notice to the Stock Exchange.

2. To publish once in each year and submit to the stockholders, at least fifteen days in advance of the annual meeting of the corporation, a statement of its financial condition, a consolidated income account covering the previous fiscal year and a consolidated balance sheet showing assets and liabilities at the end of the year; or an income account and balance sheet of the parent company and of all constituent, subsidiary, owned or controlled companies.

3. To maintain, in accordance with the rules of the Stock Exchange, a transfer office or agency in the Borough of Manhattan, City of New York, where all listed securities shall be directly transferable, and the principal of all listed securities with interest or dividends thereon shall be payable; also a registry office in the Borough of Manhattan, City of New York, other than its transfer office or agency in said city, where all listed securities shall be registered.

4. To notify the Stock Exchange thirty days in advance of the effective date of any change in the authorized amounts of listed securities.

5. Not to make any change in listed securities, of a transfer agency or of a registrar of its stock, or of a trustee of its bonds or other securities, without the approval of the Committee on Stock List, and not to select as a trustee an officer or director of the company.

6. To notify the Stock Exchange in the event of the issuance or creation in any form or manner of any rights to subscribe to, or to be allotted, its securities, or of any other rights or benefits pertaining to ownership in its securities, so as to afford the holders of its securities a proper period within which to record their interests, and that all rights to subscribe or to receive allotments and all other such rights and benefits shall be transferable; and shall be transferable, payable and deliverable in the Borough of Manhattan, City of New York.

7. To notify the Stock Exchange of the issuance of additional amounts of listed securities, and make immediate application for the listing thereof.

8. To publish promptly to holders of bonds and stocks any action in respect to interest on bonds, dividends on shares, or allotment of rights for subscription to securities, notices thereof to be sent to the Stock Exchange, and to give to the Stock Exchange at least ten days' notice in advance of the closing of the transfer books or extensions, or the taking of a record of holders for any purpose.

9. To redeem preferred stock in accordance with the requirements.
10. To notify the Stock Exchange if deposited collateral is changed or removed.
11. To have on hand at all times a sufficient supply of certificates to meet the demands for transfer.

The Committee recommends a date be fixed as record for dividends, allotment of rights and stockholders' meetings, without closing the transfer books.

Notice of rights, allotments, subscription privileges, to bondholders and shareholders, should be as of a date after authorization.

Trustees of Mortgages.

The Committee recommends that a trust company or other financial corporation be appointed trustee of mortgages, indentures, and deeds of trust; and when a State law requires the appointment of an individual as trustee, a trust company or other financial corporation be appointed as co-trustee.

Each mortgage, indenture, or deed of trust should be represented by a separate trustee.

The Committee will not accept as trustee:

- (a) An officer or director of the issuing corporation;
- (b) A corporation in which an officer of the issuing corporation is an executive officer.

The trustee shall present a certificate accepting the trust and certifying (1) securities are issued under the terms of the mortgage or indenture, giving the numbers, denominations and amount certified; (2) collateral deposited; (3) disposition of prior obligations. For additional issues of bonds, the trustee must certify that (1) increase is in conformity with terms of mortgage or indenture; (2) additional collateral deposited; and (3) disposition of prior obligations.

The company and trustee shall notify the Stock Exchange of the holding, cancellation, or retirement of securities, by redemption, through the operation of sinking fund or otherwise.

The trustee must notify the Stock Exchange if deposited collateral is changed or removed, and furnish a list of collateral substituted.

A change of trustee shall not be made without the approval of the Committee.

Transfer and Registry.

Every corporation whose securities are listed upon the Stock Exchange must, in accordance with the rules of the Exchange, maintain (a) a transfer office and (b) a registry office, both in the Borough of Manhattan, City of New York. The transfer agency and registrar *shall not be identical*, and both must be acceptable to the Committee. A company cannot act as registrar of its own stock.

Where a stock is transferred at the company's office, the transfer agent or transfer clerk shall be appointed by specific authority of the board of directors to *countersign* certificates, in said capacity, and shall be other than an officer who is authorized to sign certificates of stock.

The entire amount of the capital stock of a corporation listed upon the Stock Exchange *must be directly transferable* at the transfer office of the corporation in the Borough of Manhattan, City of New York. When a corporation makes transfer of its shares in other cities, certificates shall be interchangeably transferable, and *identical in color and form*, except as to names of transfer agent and registrar; and the combined amounts of stocks registered in all cities shall not exceed the amount authorized to be listed.

Interchangeable certificates must bear a legend reciting the right of transfer in New York and other cities.

The registrar must file with the Secretary of the Stock Exchange an agreement to comply with the requirements in regard to registration and *not to register any listed stock, or any increase thereof, until authorized by the Committee.*

Certifications of transfer and registry must be dated and signed by an authorized officer of the transfer agent and registrar respectively.

A change in the form of a security, of a transfer agency, or of a registrar, shall not be made without the approval of the Committee.

Forms of Certificates, Engraving, Etc.

GENERAL REQUIREMENTS

(See Specific Requirements below.)

All securities for which listing upon the Exchange is requested, except as otherwise herein stated, must be engraved and printed in a manner satisfactory to the Committee from at least two steel plates by an engraving company whose work the Committee is authorized by the Governing Committee to pass upon; the name of the engraving company must appear upon the face of all securities and also upon the face

of coupons and the title panel of each bond. Securities must bear a vignette upon their face.

Said plates shall be: (1) *A border and tint plate* from which should be made a printing in color underlying important portions of the face printing; (2) *A face plate* containing the vignettes and descriptive or promissory portion of the document, which should be printed in black or in black mixed with a color. The combined effect of the impression from these plates must be as effectual security as possible against counterfeiting.

The printing of securities must be in distinctive colors, to make classes and denominations readily distinguishable.

All certificates, except as otherwise stated herein, must provide for transfer and for registration with dates; when a corporation makes transfers of its shares in other cities, certificates shall be identical in color and form, except as to names of transfer agent and registrar; certificates interchangeably transferable must bear a legend reciting the right of transfer in New York and other cities.

The Committee recommends that the text of securities shall provide for transfer in person or by duly authorized attorney upon surrender of the security properly endorsed.

A change in the form of a security, transfer agency, registrar, or trustee of bonds, shall not be made without the approval of the Committee.

The Committee will object to any security upon which an impress is made by a hand stamp, except for a date or power of substitution.

BONDS

(In addition to the General Requirements above outlined, the following apply specifically to bonds.)

All bonds must be fully engraved and printed in a manner satisfactory to the Committee; face of bonds and coupons must bear a vignette.

The text of bonds should recite conditions of issuance, tax exemption, terms of redemption (by sinking fund or otherwise), convertibility, default, interchangeability or exchangeability of coupon and registered bonds, and conversion into other securities.

Bonds, in the text and on the reverse, must recite payment of principal and interest in the Borough of Manhattan, City of New York, and provide for transfer and registration. Coupons must recite payment of interest in the Borough of Manhattan, City of New York, and tax exemption.

Registered bonds must carry a power of assignment in such form as the Committee may approve.

The Committee recommends that registered bonds be made interchangeable with coupon bonds.

Registered bonds interchangeable with coupon bonds shall bear a legend reciting numbers and denominations of coupon bonds, against which they are issued.

If coupon bonds of any denomination are interchangeable with coupon bonds of other denominations they shall contain such recital in the text and bear an appropriate legend on the reverse.

Registered bonds made such by detaching coupon sheets are not eligible for listing.

FORMS OF LEGENDS FOR BONDS

For coupon bonds of one denomination interchangeable with coupon bonds of other denominations:

"As provided in the Indenture, coupon bonds of the denominations of \$1,000, \$500 or \$100, at any time outstanding, when surrendered with all unmatured coupons attached and upon the payment of charges, may be exchanged for an equal aggregate principal amount of coupon bonds of any other denomination of the same issue, of numbers not contemporaneously outstanding, with all unmatured coupons attached."

For a coupon bond of a thousand dollars exchangeable for coupon bonds of smaller denominations:

"The holder of this bond may, at his option, on surrender and cancellation and on payment of charges, as provided in the indenture, receive in exchange coupon bonds of this issue for an amount aggregating \$1,000 in denominations of \$. of numbers not contemporaneously outstanding."

For coupon bonds of smaller denominations exchangeable for a \$500 or a \$1,000 coupon bond:

"The holder of this bond may, at his option, on surrender and cancellation of this bond and others of the same issue aggregating \$500 or \$1,000 and on payment of charges, as provided in the indenture, receive in exchange a coupon bond of this issue of a number not contemporaneously outstanding for the amount aggregated."

For registered bond(s) issued for coupon bond(s) of denomination(s) of less than \$1,000:

"This bonds is issued in exchange for coupon bond(s) of this issue numbered. in denominations of \$. not contemporaneously outstanding, agregating the face value hereof and coupon bond(s) of this issue bearing the said number(s) and of the same denomination(s) will be issued in exchange for this bond upon surrender, cancellation and payment of charges provided in the indenture."

For registered bond(s) issued for \$1,000 coupon bond(s):

"This bond is issued in exchange for coupon bond(s) of this issue numbered for \$1,000 (each), not contemporaneously outstanding, and coupon bond(s) of this issue bearing the said number(s) will be issued in exchange for this bond upon surrender, cancellation and payment of charges provided in the indenture."

STOCK

(In addition to the above General Requirements, the following apply specifically to stock certificates.)

The border and tint plate for one-hundred share certificates of stock shall have *said denomination engraved thereon in words and figures; the plates for smaller amounts shall bear some engraved device whereby the exact denomination of the certificate may be distinctly designated by perforation*; also conspicuously upon the face "*Certificate for less than one hundred shares.*"

Certificates for every class of stock shall recite preferences of all classes.

Certificates of stock shall recite (1) ownership; (2) par value; (3) whether shares are *full* paid and (4) non-assessable; (5) preference as to dividends; (6) distribution of assets upon dissolution or merger; (7) terms of redemption; (8) convertibility; (9) voting power, or (10) other privilege; and (11) must bear the following legend:

This certificate is not valid until countersigned by the transfer agent, and registered by the registrar.

The following form is required upon the reverse of a certificate of stock:

For value received.....hereby sell, assign and transfer unto shares of the *capital stock represented by the within certificate and do hereby irrevocably constitute and appoint attorney to transfer the said stock on the books of the within named company with full power of substitution in the premises.

Dated19....

In presence of

Notice: The signature to this assignment must correspond with the name as written upon the face of the certificate in every particular without alteration or enlargement, or any change whatever.

* On certificates without nominal or *par* value the word "capital" may be omitted.

CERTIFICATES OF DEPOSIT, VOTING TRUST CERTIFICATES, ETC.

In addition to the General Requirements above outlined, certificates of deposit and voting trust certificates must conform in every particular to the Specific Requirements as to stock certificates, except that the descriptive portion of a certificate of deposit may be typed satisfactorily to the Committee.

TEMPORARY CERTIFICATES OR RECEIPTS

Temporary certificates or receipts must conform to the General Requirements above outlined and to the Specific Requirements as to stock certificates, except that the text may be typed satisfactorily to the Committee, and need not bear a vignette.

Removals or Suspensions in Dealings of Listed Securities.

Whenever it shall appear that the outstanding amount of any security listed upon the Stock Exchange has become so reduced as to make inadvisable further dealings therein, the Committee may direct that such security be removed from the list and further dealings therein prohibited.

"The Governing Committee may suspend dealings in the securities of any corporation previously admitted to quotation upon the Exchange, or it may summarily remove any securities from the list."

FOREIGN GOVERNMENT BONDS

Data required in addition to Regular Requirements in connection with Proposed Listings.

1. (a) Statement of debt, internal and external, and currency in which it is to be paid; statement of external debt to be computed in dollars. (b) Contingent and actual liabilities, and priority. (c) Revenue or assets pledged, if any, under present and other loans, and nature of administration. (d) Summary of such revenue receipts and income from such assets for preceding five years, stated in dollars, if available. (e) Status of the law under which said revenue or assets are pledged.

2. Past debt record with respect to: (a) Defaults; (b) Scaling down interest payments; (c) Suspending sinking fund payments.

3. Where listed.

4. Currency in which interest and principal are to be paid.

5. Tax liability and exemption.

6. Statement of governmental income and expenditure for whatever account in the preceding five years.

7. Statement of the sums required, in dollars, to meet foreign interest charges in each of the five preceding years.

8. Statement in terms of weight and dollars (converted) of merchandise imports and exports in each of the preceding five years.

9. Statement of covenants, if any, with respect to payment of principal and interest of bonds dependent upon state of Peace or War and nationality of holder.

NEW YORK STOCK EXCHANGE

RULES FOR DELIVERY

(ART. XXV, SEC. 3, CONSTITUTION.)

1. Securities admitted to dealing upon the New York Stock Exchange Registered and Transferable in the Borough of Manhattan, City of New York, in conformity with the requirements of Section 1, Art. XXXIII of the Constitution, are a delivery:

- (a) Certificates of Stock for 100 shares or odd lots aggregating 100 shares, with irrevocable Assignment for each Certificate, and in the name of a member or a member's firm, registered and doing business in the Borough of Manhattan. Certificates for the exact amount or aggregating the amount of an odd lot.
- (b) Or with irrevocable Assignment witnessed by a member; or correctness of signature guaranteed by a member or a member's firm.
- (c) Or with irrevocable Assignment and each Power of Substitution witnessed by a member or correctness of signature guaranteed by a member or a member's firm.
- (d) Coupon Bonds payable to Bearer, in denominations of \$500 or \$1,000 each, with proper coupons of the bond's number securely attached. Small bonds, under \$500, or large bonds over \$1,000, only in special transactions, except that in transactions in United States Victory or Liberty Loan coupon bonds, denominations of \$5,000 and \$10,000 when such pieces are exchangeable for \$1,000 or \$500 denomination, may be delivered.

The money value of a missing coupon may be substituted only with the consent of the Committee on Securities for each delivery.

Coupon Bonds exchangeable into Registered Bonds and Convertible Bonds must carry all unpaid and unmatured Coupons.

- (e) Registerable Coupon Bonds in denominations of \$500 or \$1,000 registered to Bearer, or when transfer books are closed with an Assignment to Bearer for each bond by a member or his firm or witnessed by a member, or the correctness of the signature guar-

anted by a member or his firm, registered and doing business in the Borough of Manhattan. Provided, however, that when coupon bonds may be "registered for voting purposes only" and such registration does not affect the negotiability of the bonds, such bonds may be delivered with such registration thereon.

(f) Registered Bonds in denominations of not less than \$500 and not exceeding \$10,000 properly assigned.

2. Securities contracted for in amounts exceeding 100 shares of Stock or \$1,000 in Bonds, may be tendered in lots of 100 shares of Stock or \$1,000 in Bonds, or any multiple of either, and must be accepted and paid for as delivered, except that in the case of Bonds sold "Delayed Delivery," the full lot must be tendered, unless otherwise mutually agreed.

3. Securities with Assignment, or Power of Substitution, signed by an Insolvent, are not a delivery. During the close of transfer books, such securities, held by others, than the insolvent, are a delivery if accompanied by an affidavit for each certificate or bond, that said securities were held on a date prior to the insolvency.

Securities with Assignment or with Power of Substitution, guaranteed by a member or his firm, suspended for Insolvency, are not a delivery and must be reguaranteed by a solvent member or his firm.

4. Securities with an Assignment or a Power of Substitution executed by a firm that has ceased to exist are not a delivery, except during the closing of the transfer books. The assignment must be proved or acknowledged before a Notary Public. (Form No. 3, and for witness No. 9.)

Securities with either the Assignment or any Power of Substitution witnessed by a deceased person are not a delivery.

5. Securities assigned, or a Power of Substitution by a firm that has dissolved and is succeeded by one of the same name, are a delivery, when the new firm shall have signed the statement "Execution guaranteed," under a date subsequent to the formation of the new firm.

6. Securities in the name of a corporation or an institution, or in a name with official designation, are a delivery only when the statement, "*Proper papers for transfer filed by assignor*" is placed on each assignment and signed by the Transfer Agent.

7. Securities with an Assignment or a Power of Substitution signed by a deceased person, Trustees, Guardians, Infants, Executors, Administrators, Assignees and Receivers in Bankruptcy, Agents or Attorneys are not a delivery.

8. Securities assigned by a *Married Woman* are not a delivery. A

joint assignment and acknowledgment by husband and wife before a Notary Public will make such security a delivery only *while the transfer books are closed*. (Form No. 4.)

9. Securities in the name of an *Unmarried Woman*, with the prefix "Miss," are a delivery without notarial acknowledgment, when signed "Miss."

10. Securities in the name of an *Unmarried Woman* (without the prefix "Miss"), or a *Widow* are a delivery only when the Assignment is acknowledged before a Notary Public. (Form No. 5.)

11. Securities of a Company whose transfer books are closed indefinitely for any reason, legal or otherwise, the Assignment and each Power of Substitution must be acknowledged before a Notary Public. (Forms Nos. 2, 3, for witness, 8 and 9.)

12. Securities in the name of Foreign Residents are not a delivery on the day the transfer books are closed for payment of a Dividend or Registered interest, *and reclamation can only be made on that day*.

13. Securities in the name of Foreign Residents must be accompanied by an acknowledgment before a United States Consul or Morgan Grenfell & Co., London, when required by transfer agents.

Several companies having transfer offices at Grand Central Station, New York, make this requirement.

14. Certificate of stock on which the name of a transferee has been filled in error, may be made a delivery during the closing of the transfer books by ruling of the Committee on Securities. Necessary form of release cancellation and reassignment will be furnished on application to the Committee on Securities.

15. An endorsement by a member or his firm registered and doing business in the Borough of Manhattan of (or the signature as a witness by such a member of a signature to) an Assignment or a Power of Substitution, is a guarantee of its correctness. Each Power of Substitution, as well as the Assignment, must be so guaranteed, or witnessed.

16. The Receiver of Stock may demand delivery by transfer when the transfer books are open, and must give ample time in which to make transfer. The Seller may demand payment for the securities at the time and place of transfer. The Seller may make delivery by transfer when personal liability attaches to ownership.

17. When a claim is made for a dividend on Stock after the transfer books have been closed, the party in whose name the stock stands may require from the claimant presentation of the certificate, a written state-

ment that he was the holder of the Stock at the time of the closing of the books, a guarantee against any future demand for the same and the privilege to record on the certificate evidence of the payment by Cash or Due Bill.

18. *"Coupon Bonds issued to Bearer, having an endorsement upon them not properly pertaining to them as a security, must be sold specifically as 'Endorsed Bonds,' and are not a delivery, except as 'Endorsed Bonds.'"*

Extract from Resolutions of Governing Committee, adopted May 23, 1883.

A definite name of a person, firm, corporation, an association, etc., such as "John Smith," "Brown, Jones & Co.," "Consolidated Bank," appearing upon a Coupon Bond, and not placed there for any purpose of the Company by any of its officers, implies ownership, and is an "Endorsed Bond" under the above resolution.

19. Any endorsement on a Coupon Bond, stating that it has been deposited with a State for bank circulation or insurance requirement, may be released and release acknowledged before a Notary Public; it will then be a delivery as a "Released Endorsed Bond."

"Rights" to Subscribe

20. Assignments of "Rights," with the signature of the assignor witnessed and guaranteed in the same manner as other Assignments, as provided in these rules, are a delivery:

- (a) An Assignment of the "Rights" accruing on each 100 shares, or, Assignments of "Rights" on odd lots aggregating the "Rights" on odd lots aggregating the "Rights" on 100 shares.
- (b) An Assignment for the exact amount, or Assignments aggregating the amount, on a sale of the "Rights" accruing on an odd lot of stock.

21. Assignments of "Rights" in the name of a *Married Woman*, *Widow* or an *Unmarried Woman* are a delivery without notarial acknowledgment.

22. Assignments of "Rights" made by a deceased person or a firm that had ceased to exist are not a delivery, and must be taken back by the party delivering them.

23. Assignments of "Rights" signed by Trustees, &c., or for corporations, &c., are not a delivery, until passed by the Committee on Securities.

24. "Rights" may be dealt in after a day to be fixed by the Committee on Securities. Warrants for Rights are deliverable upon a subsequent

day to be fixed by the Committee, after said day all dealings shall be as in other securities.

25. Due Bills for "Rights" accompanying stock which, by ruling of the Committee on Securities, does *not* sell "Ex-Rights" at the closing of the books, must be redeemed on a day fixed by the Committee on Securities.

26. Contracts in Warrants for "Rights" may be enforced "under the rule."

Reference is made to Section 2 of Article XXXII of the Constitution for method of settlement of contracts carrying "Rights" other than those covered by 24 and 25 of these Rules, and also for Rights accruing during the pendency of a contract.

Reclamations

27. Reclamation for irregularity in a security, when such irregularity affects only its currency in the market, must be made within ten days from day of delivery of the security. (Article XXIX, Constitution.) A security with an irregularity having been delivered may be returned up to 2:15 o'clock P. M. to the party who delivered it, who must immediately give the party presenting it either the security in proper form for delivery, or pay the market price of the security, and assume all liability for non-delivery. In the latter case, the security in proper form may be delivered to the claimant before 2:15 P. M., and the amount paid shall be returned.

Signatures to Assignments and Due Bills

28. *The signature to an Assignment or a Power of Substitution must be technically correct, i. e., it must correspond in every particular, without any change, with the name in which the security is issued, and the name of the Attorney or Substitute.*

The date of an Assignment or a Power of Substitution must be legible, and any correction properly noted by the signer.

- (a) *Titles* must be prefixed or affixed to signatures, exactly as they are in the name in which the security is issued.
- (b) "Brothers" or "Bros." must be written as it appears in the security.
- (c) "And" or "&," "Company" or "Co." may be written either way.
- (d) "Mr.," "Messrs.," "Esq.," or the *Residence* or *Business Address* of an individual or firm need not be made part of the signature.
- (e) Due Bills must be signed or guaranteed by a member or a firm registered and doing business in the Borough of Manhattan.

The Committee recommends:

That Transfer Agents be given the exact form of the name to which securities are to be transferred.

That the signatures of all members and the firm signatures of each of the partners in a member's firm, doing business in Borough of Manhattan, be filed with transfer offices in order to secure promptness of transfer of securities.

Assignments and Notarial Acknowledgments

29. A detached Assignment of a security, must contain provision for the appointment *irrevocable* of an attorney, and substitute and a full description of the security, *i. e.*, name of Company, Issue, Certificate or Bond number and amount (the latter written in words and numerals), and *must* be acknowledged before a Notary Public with seal and date. This description must be in the same handwriting as the other facts stated. A separate Assignment must accompany each certificate or bond. (See Form No. 10 for Detached Assignment and Forms No. 11 and No. 12 for Acknowledgments.)

30. In the acknowledgment of an Assignment or Power of Substitution in the name of an individual, the Notary Public must certify with seal and date that he knows the person signing to be the person named in the security, or in the Power of Substitution and that the signer acknowledged his signature. (Form No. 2.)

31. An Assignment or Power of Substitution in the name of a firm, the Notary Public must certify that he knows the person and knows him to be, or to have been on the date of execution a member of the firm, and that he acknowledged that he executed the Assignment or Power of Substitution as the act and deed of the firm. (Form No. 3.)

32. In proving, before a Notary Public, an Assignment or Power of Substitution, the witness must make deposition that he knows the person who executed the Assignment or Power of Substitution, to be the person named in the Security or Assignment, and saw the signer execute the same. For Assignments of Securities in the name of a firm, the witness must make deposition that he knows the party signing to be (or to have been at the date of execution) a member of the firm. (Forms 8 and 9.)

33. Any alteration in the wording of an Assignment, must be stated over the signature of the party signing.

34. Any alteration in a Notarial Acknowledgment, must be noted by signature of the Notary.

Interest Paying Bonds
RULES FOR DEALING "AND INTEREST"

As amended January 29, 1925

35. In settlement of Contracts in INTEREST PAYING BONDS interest at the rate specified in the bond shall be computed up to but not including the day of maturity of contract in all cases except "time option" contracts and "regular way delayed delivery" contracts.

36. On a Contract in Interest Paying Bonds "SELLER'S OR BUYER'S OPTION" at a rate agreed upon (as Seller or Buyer 20, 2%), the interest specified in the bond shall be computed to and including the day of sale; and thereafter interest at the agreed rate shall be computed on the Contract price plus accrued interest. An agreed rate of interest must be computed for actual elapsed days.

On a contract in interest paying bonds "REGULAR WAY DELAYED DELIVERY," interest at the rate specified in the bond shall be computed up to but not including the next "delivery day" following the date of the transaction and shall be "flat" thereafter unless otherwise agreed.

37. Bonds selling "and interest" shall so continue until, in the event of a default, the Committee on Securities rules otherwise.

38. Bonds upon which the interest is in default *shall carry all unpaid coupons.*

39. REGISTERED BONDS will not sell ex-interest on the day the books close for payment of interest. In settlement of Contracts in Interest Paying Registered Bonds, interest must be added to the date of the maturity of Contract, and a Due Bill, signed by the party in whose name the bond stands for the full amount of the interest to be paid by the Company, must accompany the bond until interest is paid; the Due Bill issued by a non-member must be paid when due by the Exchange member or firm guaranteeing it.

40. Interest *at the rate specified* in an Interest Paying Bond must be computed on a basis of a 360-day year, *i.e.:*

Every calendar month is $1/12$ of 360 days = 30 days;

Every period from a date in one month to the same date in the following month is 30 days.

41. Income Bonds, unless otherwise directed by the Committee on Securities, must be dealt in "flat."

42. Bonds dealt in "And Interest" delivered on dates on which interest is due and payable, shall be without the coupon due on such date.

43. In all transactions involving the payment of interest, where the

amount of such interest equals or exceeds five mills, it shall be considered as one cent, fractions of a cent less than five mills to be dropped; this rule to apply to loaned and borrowed securities, interest on bonds, transfers of accounts and all other transactions.

Form of Assignment

FORM NO. 1.

FORM OF ASSIGNMENT ON A CERTIFICATE OF STOCK ACCEPTED BY THE COMMITTEE ON STOCK LIST:

FOR VALUE RECEIVED.....hereby sell, assign, and transfer unto Shares of the Capital Stock represented by the within Certificate, and do hereby irrevocably constitute and appoint Attorney to transfer the said stock on the Books of the within named Company with full power of substitution in the premises.

Dated.....19....

.....

IN PRESENCE OF

.....

Form of Power of Substitution

FORM NO. 1(a).

POWER OF SUBSTITUTION to be placed on the *back* of a Certificate when name of Attorney has been filled in with the name of an individual or a firm.

"I [*or we*] hereby irrevocably constitute and appoint..... my [*or our*] substitute to transfer the within named Stock under the foregoing power of Attorney, with like power of Substitution."

Dated.....19....

.....

IN THE PRESENCE OF

.....

**Forms for Notarial Acknowledgments and Depositions Prescribed by
the Committee on Securities.**

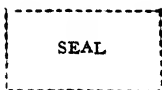
FORM NO. 2.

ACKNOWLEDGMENT BY AN INDIVIDUAL, BY WHOM AN ASSIGNMENT OR
A POWER OF SUBSTITUTION IS EXECUTED.

State of }
County of } ss.

On this.....day of.....19..... before me
a Notary Public for the County of personally
appeared to me known, and known to me to
be the individual named in the within Certificate, and described in and
who executed the foregoing Instrument, and acknowledged to me that
he executed the same.

.....
.....



If used for a Power of Substitution, substitute for the word Instrument,
"Power of Substitution, dated19.....,"
the date referred to filled in.

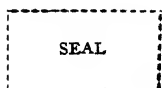
FORM NO. 3.

ACKNOWLEDGMENT FOR FIRM.

State of }
County of } ss.

On thisday of.....19..... before me,
a Notary Public for the County of personally
appeared to me known, and known to me to
be one of the firm of named in the
within Certificate, and described in and who executed the foregoing in-
strument, and acknowledged to me that he executed the same as the act
and deed of said firm.

.....
.....



If used for a firm that has dissolved, omit the word "be" in fourth line and substitute the words "have been on.....19....."

If used for a Power of Substitution, executed by a firm that has dissolved, substitute for the word Instrument, "Power of Substitution, dated19....." the dates referred to filled in.

FORM No. 4.

JOINT ACKNOWLEDGMENT OF EXECUTION OF AN ASSIGNMENT MADE BY HUSBAND AND WIFE.

State of }
 County of } ss.

On this.....day of.....19.....before me cameand.....her husband, both of them known to me, and they severally acknowledged that they executed the foregoing (or within) Assignment and Power of Attorney, for the purpose therein mentioned.

FORM No. 5.

ACKNOWLEDGMENT OF AN ASSIGNMENT EXECUTED BY AN UNMARRIED WOMAN OR A WIDOW.

State of }
 County of } ss.

On thisday of.....19.....before me personally came.....to me known and known to me (or satisfactorily proven to me) to be an unmarried woman (or widow) and known to me to be the same person named in the within certificate of stock and described in and who executed the foregoing (or within) Assignment and Power of Attorney, and acknowledged to me that she executed the same for the purpose named.

.....

.....

SEAL

FORM No. 6.

NOTARIAL ACKNOWLEDGMENT FOR ASSIGNMENT OR A POWER OF SUBSTITUTION EXECUTED BY A MEMBER SUSPENDED FOR INSOLVENCY.

State of }
 County of } ss.

On this day of 19..... before
 me, a Notary Public for the County of personally
 appeared to me known and known
 to me to be the individual named in the within Certificate, and described
 in and who executed the foregoing Instrument, and acknowledged to me
 that he executed the same on 19.....

.....



If used for a Power of Substitution, substitute the words "Power of
 Substitution dated.....19....." for the word "Instrument."

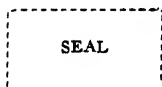
FORM NO. 7.

NOTARIAL ACKNOWLEDGMENT FOR ASSIGNMENT OR A POWER OF SUB-
 STITUTION EXECUTED BY A FIRM SUSPENDED FOR INSOLVENCY.

State of }
 County of } ss.

On this day of 19..... before
 me, a Notary Public for the County of personally
 appeared to me known and known to
 me to be one of the firm of named
 in the within Certificate, and described in and who executed the fore-
 going Instrument, and acknowledged to me that he executed the same on
 19..... as the act and deed of said firm.

.....



If used for a firm that has dissolved, substitute the words "have been"
 for the word "be" in fourth line.

For a Power of Substitution, substitute the words "Power of Sub-
 stitution dated.....19.....," for the word "Instrument."

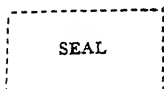
FORM No. 8.

DEPOSITION BY A WITNESS OF THE EXECUTION OF AN ASSIGNMENT OR A
POWER OF SUBSTITUTION BY AN INDIVIDUAL.

State of }
County of } ss.

On this.....day of.....19....before me,
a Notary Public for the County of.....personally
appeared.....to me known, who being by me first
duly sworn did depose and say that he resides at.....
that he knew.....named and described in the.....
instrument, which was signed in witness' presence.

.....
.....



If used for a Power of Substitution, executed by an individual, see
instructions in form No. 2.

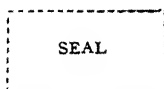
FORM No. 9.

DEPOSITION BY A WITNESS OF THE EXECUTION OF AN ASSIGNMENT OR A
POWER OF SUBSTITUTION BY A FIRM.

State of }
County of } ss.

On this.....day of.....19....before me,
a Notary Public for the County of.....personally
appeared.....to me known, who being by me first
duly sworn did depose and say that he resides at.....
that he knew.....and knew him to be one of the firm of
.....named and described in the.....
instrument, which was signed in witness' presence.

.....
.....



If used for a firm that has dissolved, or for a Power of Substitution
executed by a firm that has dissolved, see instructions in Form No. 3.

FORM No. 10.

DETACHED ASSIGNMENT AND POWER OF ATTORNEY FOR STOCKS OR BONDS.

For value received.....
 have bargained, sold, assigned, and transferred, and by these presents do
 bargain, sell, assign and transfer unto.....
 Shares of the.....*Capital Stock* (or one [1] Bond)
 of the.....standing in.....
 name on the books of said.....represented
 by Certificate (or bond for.....\$.....)
 No.....herewith, and.....do hereby constitute and
 appoint.....true and
 lawful attorney, irrevocable forand in
name and stead, but to.....
 use, to sell, assign, transfer and set over, all or any part of the said
 stock, and for that purpose to make and execute all necessary acts of
 assignment, and transfer, and one or more persons to substitute with
 like full power, hereby ratifying and confirming, all that.....
said Attorney or.....
 substitute or substitutes shall lawfully do by virtue hereof.
 Dated.....19....

IN PRESENCE OF

FORM No. 11.

ACKNOWLEDGMENT ON A DETACHED ASSIGNMENT MADE BY AN INDIVIDUAL.

State of
 County of } ss.

On this.....day of.....19....before me,
 a Notary Public for the County of.....personally
 came.....to me known to be
 the individual named in the *annexed* Certificate of Stock (or Bond) and
 described in and who executed the foregoing Instrument, and acknowl-
 edged to me that he executed the same.

SEAL

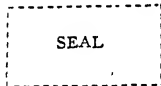
FORM No. 12.

ACKNOWLEDGEMENT ON A DETACHED ASSIGNMENT EXECUTED BY A FIRM.

State of }
 County of } ss.

On this day of 19.... before me,
 a Notary Public for the County of personally
 appeared to me known and known
 to me to be one of the firm of
 named in the *annexed Certificate of Stock* (or Bond) and described
 in and who executed the foregoing Instrument, and acknowledged that
 he executed the same as the act and deed of said firm.

.....



If used for a firm that has dissolved, see instructions in Form No. 3.

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LIST OF FORMS

This list includes all forms referred to or described. In the supplementary lists are forms in general use, but not referred to in the text.

(*Form reproduced)

MEMBERSHIP IN THE FEDERAL RESERVE SYSTEM

*Resolution signifying intention to enter reserve system	42
*Resolution applying for authority to exercise fiduciary powers . .	48

BANKING DEPARTMENT

Deposit slip	73	Check books	114
Deposit slip for coupons	73	Vouchers and voucher checks . .	115
Pass book	74	*Collateral note	122
*Receiving teller's daily settle- ment	76	*Loan accession book	123
Record of collections	77	*Demand loan ledger sheet . .	125
Collection maturity index	77	Interest bill	125
Pay-roll slip	81	Notification of change in in- terest rate	127
*Paying teller's daily settle- ment	85	*Time loan ledger sheet	127
*Certification stamp	85	Bills receivable ledger sheet . .	128
*Charge slip	85	*Collateral record sheet	129
Stop payment order	86	Collateral index	129
Payment stopped sheet	86	*Substitution of collateral slip .	129
Signature card	104	Loan envelope	132
*Record of deposit accounts opened	104	*Investment ledger	138
*Record of deposit accounts closed	104	Distribution of interest ac- crued	139
Individual depositors' ledger . .	106	Stock ledger	142
*Individual depositors' state- ment sheet	106	Stock certificate	142
*Individual depositors' daily balance and interest slip	109	Stock transfer book	142
*Interest table (one day @ 2%)	111	Index of stockholders	142
Overdraft notice	114	Dividend list	143
"Star" deposit slip	114	*Dividend check	143
"Star" charge slip	114	Index of contracts	144
		Order book	144
		*Special order book for check books	144
		Expense check	145
		Record of expenses	146

Voucher index	148	Salary list	149
Petty cash receipts book . .	148	Salary book	149
Petty cash payments book .	149		

SUPPLEMENTARY FORMS

Envelope enclosing coupons for deposit.	Slip for receipt from customers sent out with statements of pass books through the mail.
Slip for deposits in out-of-town banks.	Letter to follow slip for receipt from customer when it has not been returned.
Advice of receipt of deposit by mail.	File card showing receipt of statement by customer.
Advice of charge on deposits on account of error.	Advice of special charge to an account.
Advice to banks of receipt of cash on collection items for deposit.	Quick return advice slip for information on checks received on deposit.
Collection credit ticket sent to customers.	Slip used on return items showing why returned.
Tracer form sent out on delinquent items.	Application for collateral loan.
Form for recalling notes sent for collection.	Power of attorney for collateral.
Individual signature card kept by paying teller.	Hypothecation of collateral.
Individual signature card kept by individual bookkeeper.	Loan record charge slip.
Corporate signature card kept by paying teller.	Loan record credit slip.
Corporate signature card kept by individual bookkeeper.	Report to executive committee on new collateral loans.
Power to open an account for corporation.	Report to executive committee on closed out collateral loans.
Power of attorney for a corporation.	Partial delivery of collateral slip.
Power of attorney for individual or partnership.	Increase of collateral slip.
Individual ledger assortment sheet.	Receipt for coupons taken from securities deposited as collateral.
Letter to accompany statement of accounts.	Petty cash slip.
Letter to accompany pass books.	Application for indemnity bond.

MAKING USE OF THE FEDERAL RESERVE SYSTEM

*List of paper for discount	156	ment	162
*Customers Acceptance agree-		*Bankers acceptance	162

CREDITS AND CREDIT DEPARTMENT

Borrower's statement	171	tion	179
*Corporation	176	*Commercial agency statement	179
Firm	176	*Average balance card	185
*Analysis of borrower's posi-		Liability ledger	185

OPERATING COSTS

*Operating costs and profits	201	*Accrual sheet	209
*Monthly expense ledger	204	*Deposit analysis sheet	209
*Earnings analysis sheet	208	*Account analysis sheet	215

STATISTICAL DEPARTMENT

Quotation index	220	Chart records	230
*Monthly card	220	*Consolidated income account	233
*Annual card	220	Analysis sheet (for trust	
Record of statements (loose		accounts)	233
leaf book)	229		

FOREIGN BANKING

*Ledger Sheet for foreign ac-		sued or guaranteed	252
counts	251	Traveller's check	253
*Remittance advice and record	251	*Letter of credit agreement	254
*Draft advice and record	251	*Liability ledger	255
*Letter of credit	252	*Record of exchange bought	
*Record of letters of credit is-		and sold	255

CORPORATE TRUST DEPARTMENT

Record of corporation mort-		Petty cash book	270
gages:		Scratcher	270
*Abstract sheet	264	Statement of coupons paid	271
*Record of bonds received,		*Letter of advice and receipt	
certified and delivered	268	for paid coupons	271
*Record of bonds paid, can-		Dividend list	271
celled, and cremated, or		Dividend check	272
returned	268	*Dividend notice	272
Record of registered bonds is-		*Stock register	276
sued in lieu of coupon		Stock certificate	279
bonds, and <i>vice versa</i>	269	*Power of attorney to transfer	
Coupon envelope	270	stock	280

*Power of substitution . . .	281	Temporary certificate of de-	
*Stock transfer book . . .	281	posit of securities . . .	288
Stock transfer book (alter-		Engraved certificate of de-	
nate form)	283	posit of securities . . .	289
Stock ledger	284	Reorganization record . .	290
Stock transfer sheet . . .	285	Record of corporate trusts .	293
Voting trust certificate . .	286		

INDIVIDUAL TRUST DEPARTMENT

Power of attorney . . .	300	Record of properties rented	
Index of securities:		and vacated	329
*Security card	304	Rent bill and credit slip . .	329
*Estate card	305	*Inspection card	329
*Receipt card	307	Agreement to buy and sell .	329
Maturity index	307	Memorandum of settlement .	331
Portfolios for securities . .	308	Key envelope	331
*Coupon bond label	309	Order for repairs	331
*Coupon collection sheet . .	311	Bill for repairs	331
Coupon envelopes	313	Insurance maturity book or	
Coupon credit slip	313	index	332
Coupon credit book	313	Insurance, estate index . .	332
Request for notice of calls .	314	Insurance, location index .	332
Record of interest in de-		Insurance, line index . . .	333
fault	315	Policy envelope	333
Application for mortgage		Insurance slip	333
loan	315	Insurance expiration notice .	333
*Appraisal of real estate . .	316	Trust credit slip	334
Bond and mortgage	317	Receiving teller's settlement .	335
*Mortgage ledger	319	Disbursement index	336
Mortgage charge slip	320	Trust charge slip	336
Mortgage bill and credit slip		*Trust check	338
(principal)	320	Daily settlement of trust dis-	
Mortgage bill and credit slip		bursements	338
(interest)	320	*Record of trust securities re-	
Mortgage scratcher	321	ceived	338
Index of mortgagors and in-		*Record of trust securities de-	
terest payers	321	livered	339
Mortgage location index . .	322	Record of individual trusts:	
Mortgage maturity index .	322	*Abstract	340
Lease	325	*Coupon bonds	340
*Rent ledger	327	*Stocks	340
Index of properties	329	*Notes and miscellaneous	
Index of tenants	329	securities	341
Index of expiration of leases	329	*Registered loans	341

LIST OF FORMS

541

*Mortgages	341	Trust general journal	354
*Real estate	341	Trust comparative daily bal-	
Estate index	348	ance sheet	354
Will book	348	Trust comparative monthly	
*Individual trust ledger	348	balance sheet	355
Individual trust scratcher	350	Monthly statement of trust	
Individual trust daily balance		accounts opened and closed	355
and interest slip	350	*Record of fees and commis-	
Trust general ledger	351	sions	358
Trust general cash book	354		

INVESTMENTS

Index of trust balances for investment	378
--	-----

COMMERCIAL PAPER

*Promissory note	382	*Banker's acceptance	382
*Draft or bill of exchange	382	*Bills discounted and pur-	
*Trade acceptance	382	chased register	386
Commodity paper	382	*Jenks bill	391

SAFE DEPOSIT DEPARTMENT

*Receipt for safe rent	401	ables	407
*Receipt and identification		*Receipt and identification	
card—safe	402	card—valuables	407
*Appointment and identifica-		Appointment and identifica-	
tion of deputy	405	tion of deputy	408
Rent ledger card	405	Ledger card	409
Bill for safe rent	405	Bill for deposit of valuables	410
Credit slip for safe rent	406	Credit slip for payments for	
Charge slip for refunding		deposit of valuables	410
rent	406	Tag	410
*Corporate resolution giving		Delivery order for valuables	410
access to an individual	406	Receipt for valuables	410
Corporate certificate of elec-		Record of visitors	410
tion of officers	407	*Cash and record book	410
*Certificate of deposit of valu-		*Comparative monthly report	412

SUPPLEMENTARY FORMS

Appointment and identifica-		Power to break open safe de-	
tion of joint renter.		posit box.	
Revoking joint renter.			

SAVINGS FUND DEPARTMENT

Signature card:		Depositor's index card	414
*Individual	414	Authority for opening ac-	
Joint	414	count for a corporation	414

Authority for opening ac-	*Withdrawal notice . . .	415
count for an unincorpor-	*Withdrawal slip . . .	415
ated organization . . .	Paying teller's daily proof .	416
Savings deposit book . . .	*Ledger Sheet . . .	417
Savings deposit slip . . .	Block control ledger sheet .	418
Receiving teller's daily proof		415

GENERAL ACCOUNTING

General ledger	424	sheet	432
General cash book . . .	431	Comparative monthly balance	
General journal	431	sheet	432
Daily trial balance . . .	431	Monthly balance sheet . .	432
*Comparative daily balance		Daily cash report	432

SUPPLEMENTARY FORMS

General charge slip.	counts.
General credit slip.	Auditor's reconciliation form
Auditor's record card for col-	to be sent out on inactive
lateral loans, stocks and	accounts.
bonds held by the company.	Certification of depositor's
Auditor's reconciliation form	balance on specified date.
to be sent out on active ac-	

CORRESPONDENCE OR MAIL ROOM

Register of incoming mail .	441	Finding index	442
Vertical letter file	442		

OFFICE BUILDING

Record of persons entering and leaving building	452
---	-----

PURCHASE AND CARE OF SUPPLIES

*Inventory and schedule of an-	Stock record card	457
nual order of supplies . . .	Sample book	457
Record of supplies received .	Index of forms	457
Requisition for supplies . .		457

INDEX

- Abstract sheet—corporate trusts, 293; corporation mortgages, 264-268; individual trusts, 340; registrar, 276; transfer agent, 281.
- Acceptances, bankers, 160-164, 382, 389-390; advantages of, 164; commissions upon, 164; customers agreement concerning, 162; finance bills passing for, 390; form of, 163; "gilt edged," 170; as investments, 375; paper masquerading as, 390; rates for at New York Federal Reserve Bank, 161; renewable, 381; trust companies should not hold their own, 164.
- Acceptances, trade, 382, 385.
- Access—to building, 450, 452; to safe deposit box, 399, 403-407; to trust securities, 302.
- Accession book—collection items, 77; deposit accounts, 104; loans, 123, 125; trust securities, 302, 307, 329, 338.
- Accession number, trust accounts, 293, 348.
- Accident liability insurance, 332.
- Accountant, certified public, examination by, 438-439.
- Accounting, 423-433; to beneficiaries, 349, 351; "cost," 198; to court, 298, 300, 349, 351; foreign exchange, 251.
- Accounts—analysis of, 209-216; analysis sheet, 215; analysis trust, 233; of assignee, 292; Boston system, 105; corporate trust, 293; court, 114; income, consolidated, 233; deposit, closed, 104; deposit, new, 103; duplicate systems, 106; examination and oversight of, by Federal Reserve system, 434; general ledger, 425-430; inactive, 113, 114; individual trust department, 348-351; opening, for corporation, authority for, 414; opening, for unincorporated organization, 414; receivable, 426; of receiver, 292.
- Accrual sheet, 209.
- Accrued—commissions, 359; interest on investments, 138-139; interest payable, 428, 430; interest receivable, 426.
- Actuary, 55.
- Adding machine, 106, 415, 416.
- Addressing machine, 273.
- Adjudication of court, 298.
- Administrator, 10, 298.
- Advantages of trust company as trustee, 5.
- Advertising, 141, 458-459; item in expense account, 146; real estate, 324.
- Agency, commercial—Bradstreet's, 179, Dun's, 179; form of credit statement to, 180; reports of, 179.
- Agency—co-operative, 182; foreign, 247, 258.
- Agent, 11, 300; commissions of, 359; for corporations, 292; Federal Reserve, 151; fiscal, 9, 269-274; for real estate, 323; transfer, 66, 277-286; commissions for, 294; duties of, concerning transfer and bond taxes, 286.
- Agent bank—clearing checks through, 95.
- Agreement for sale of real estate, 329.
- Agricultural paper, 153, 382.
- Alien Property Custodian, 15; Bureau of Trusts under, 16; British, 18; reports of enemy property to, 15.
- American Bankers Association, schedule of compensation, 355, 472-487.
- Amortization of premium, 365.
- Analysis—account sheet, 215; of borrower's position, 171-179; cost, of banking department, 198-216; of deposit sheet, 209; of earnings sheet,

- 208; of securities, 225-233; of trust accounts, 233.
- Annuities, 13, 336, 419.
- Appendix, 461-517.
- Applications—for mortgages, 316, 444; for positions, 444.
- Appointment and identification of deputy, card, 405, 408.
- Appointments, made by President, 61.
- Appraisal of real estate, 315-316.
- Arbitration of exchange, 246.
- Assessments on securities deposited, 290.
- Assets—general ledger, 425; separation of trust from company's, 5, 295.
- Assignee, 11-12, 291-292, 294, 301.
- Assignment—deed of, 291; of mortgage, 316.
- Attorney, 11, 300, 357, 359; power of, 123, 280-281, 300.
- Audit, 423, 433-439; by court, 298, 300, 338; of rent ledger, 327-329.
- Auditor, 423-424.
- Australia—land transfer acts, 326; public trustee, 19; trustee companies in, 7.
- Average balance card, 185.
- Balance—card, average, 185; loanable, process of ascertaining, 209; trade, 241; trial, 425, 431; trial, of individual trusts, 351; trial, of savings fund department, 415, 416.
- Balance and interest slip—individual depositor's, 109-111; individual trusts, 350.
- Balance sheet, 293, 425; comparative, 354, 431; expenses included in daily, 147; monthly, 432; trust general ledger, 352.
- Balances—for investment, 378; record of, 378; at Federal Reserve Bank, 164.
- Bank—agent, for clearing checks, 95; of England, 133; exchanges, 83; tendency to composite type of, with trust company, 168.
- Bank, Federal Reserve—clearing checks through, 87-94; dividends of, 45; new money from, 81; notes of, 81; redemption of notes, 81; reserve account of members, 45; subscription to stock of, 44. *See also* Federal Reserve Banks, Federal Reserve system.
- Bankers' acceptances, 160-164, 382, 389-390.
- Banking—commissioner of, 426; costs and analysis of, 201-216; forms, list of, 537-542; forms, supplementary, 538-542; functions of trust companies, 7; house, furniture and fixtures, general ledger account, 427; by mail, 79.
- Banking department, 71-150; organization of, 71; relation of to commercial paper, 379.
- Banking, foreign, 239-258; contrasted with domestic, 240; controlling, 258; nature of, 239; organizing, 241; special services, 248.
- Banks and bankers, due to, general ledger account, 427.
- Banks, National—competing with trust companies, 87; controlling trust companies, 52; permitted fiduciary powers, 3-4, by Federal Reserve Act, 13, 47, 167; tendency to form composite type with trust company, 168.
- Beneficiaries of trust estates, 299; accounting to, 349, 351; consulting with, about investments, 377.
- Bibliography, 510-535.
- Bill—deposit of valuables, 410; expenses, 145; foreign, 244; Jenks', 391-396; interest on loans, 125; mortgage interest and principal, 318, 320; rent, 325, 329; rent of safe, 405; repairs, 331.
- Bill of exchange—draft or, 382-384; British, 381.
- Bills—discounted and purchased, register of, 386; receivable, 119; general ledger account, 426; ledger sheet, 127-129.
- "Black lists," war, 236.
- Block control clerk, 418.
- "Blue sky laws," 365.
- Board of Directors, 32-36; attestations by, 35; chairman of, 54; committees of, 33; fees, 35; minutes, 65; number, 33; of Federal Reserve Bank, 151; under Clayton Act, 36; vacancies, 34.
- Boiler insurance, 331.
- Bond—department, 140, 376, assistance of in investing, 377; issue, secured

- by mortgage, 426, 429; and mortgage, form of, 317; sales to trust accounts, 376; salesmen, 377.
- Bonds—analysis and basic information concerning, 225-233; camouflaged, 381; cancellation of, 263; care of, 301-303, 308-310; certified by trustee, 261-262; coupon, arrangement of, 309-310; county, city and district, as investments, 372; coupon and registered, interchangeable, 269; cremation of, 263, 268; delivered, 261; due or called, 78, 314; fidelity, 420, 448; foreign government, 371; general ledger account of, 426; index of coupon, 304-305; index of registered, 305; industrial, state, public service, and railroad, as investments, 373-374; label, for coupon, 310; Liberty, 371-372; mortgage to secure, 260, 426; ownership certificates for coupons of certain, 270; record of paid, cancelled and cremated, or returned, 268; record of received, certified and delivered, 268; registered, 301; rules for listing and for delivery, New York Stock Exchange, 488-517; signing, 261; sinking fund, 377; shrinkage in value, 367; statistics, 225; state, as investments, 372; subject to redemption, 271; surety, required of trustees, etc., 4, 299; taxation of, 196; transfer of registered, 285.
- Bonds, United States, 371-372; borrowing upon at Federal Reserve Banks, 153, 159, 161; paper secured by, eligible for rediscount, 153; taxation of, 193-196.
- Book—coupon bonds, 140, 309; deposit, 415; value of building and fixtures, 452.
- Bookkeeper—general ledger, 431; individual depositors, 105; savings department, 415, 418; trust department, 334.
- Borrowers—position, analysis of, 170, 178-179; statement, 173-175.
- Boston system of ledger accounts, 105.
- Branch offices, xiii, 27, 41, 44, 427; foreign, 239, 258.
- Brief of title, 317.
- British—Bill of Exchange Act, 381-382; consols, 374.
- Building, 451-453; maintenance of, 147; record of persons entering and leaving, 452.
- Bureau of Trusts, 16.
- Burglary insurance, 331-332.
- Burial lot funds, 326.
- By-laws, 27, 65.
- Cable transfer, 248.
- California—Trust companies, schedule of charges, 355; general corporation law, 25; standardized compensation in, 355.
- Call loans, 119.
- Called bonds, 314.
- Cambist, 246.
- Cancellation—of bonds by trustee, 263; of checks, 108.
- Cancelled—certificates, 281; coupons, letter of advice and receipt for, 271.
- Cancelling machine, 108.
- Capital, 20; "goods," 249; nature of, 360-362; stock, 28; stock, general ledger account, 429; minimum required, 21-26.
- Car trust, 263.
- Card—index, *see* Index; signature, 104.
- Cash—errors in, 82, 429; general ledger account, 425; petty, for payment of coupons, 270; petty, payments, 148; petty, receipts, 148, 430; receipts, safe deposit department, 401, 412; report, 432; trust general ledger, 321, 352; uninvested trust, 296, 335, 338, 350, 351, 352.
- Cashbook—corporate trusts, 293; general, 431; individual trusts, 339; petty payments, 148; petty receipts, 148; and record, safe deposit department, 410; trust general, 321, 354.
- Certificates—of appointment of executor, 298; canceled, 281; of deposit, 75, 84, 428; of deposit of securities, 289-290; of deposit of valuables, 407, 412; of "no defence" or "no set-off," 316; receivers', 292; required for coupons, 78, 270; stock, 276, 279; stock trust, 286.
- Certificates of Indebtedness, U. S.,

- 375; rates of discount at New York Federal Reserve Bank, 161.
- Certification—of bonds, 261, 294; stamp, 85; by signograph, 261.
- Certified checks, 85-86; general ledger account, 428.
- Certified public accountant, 438; inducing customers to employ, 172.
- Charge slips, 86; certified checks, 85-86; mortgages purchased, 320; safe deposit department, 406, 412; "star" entries, 114; trust department, 336, 350.
- Charges, 294, 349, 355-359, 472-487.
- Charities, trusts for, 300.
- Chart, record, 230.
- Charter, 20-27.
- Check books, 114, 144.
- Checks—altered or forged, 86-87, insurance against, 87; analysis of costs of "country," 213; canceled, 108; certified, 85-86, 428; clearing, 76, 87-103; for non-members of clearing house, 95, 97, at Chicago, 96, at New York, 96; clearing through agent bank, 95; through Federal Reserve system, 90-94; collection, by Federal Reserve Banks, 164-165; counter, 115; dividend, 143; for expenses payable, 145; indorsement of, 83, 93; local collection, non-clearing house items, 101; lost, 86; mechanical protectors for, 86; order book for, 144; over counter, 83; payment of, 83; posted, 108; for repairs, 331; salary, 149; "stop payment" of, 86; travelers, 253; trust, 337, 338; voucher, 115.
- Chicago Clearing House, 96.
- Chittenden, signing of Treasury bonds by, 261.
- "Clafin paper," 381.
- Cleaners, 450.
- Clearing trust company checks, 87-103; by Federal Reserve Banks, 164.
- Clearing House, 71, 76, 87, 94; examinations, 434; Chicago, 96; certificates, 119; New York, 96-102; city collecting department, 101; out of town collections, 97-101; Federal Reserve System, 87-94.
- Clerical force, 446-449.
- Clippings, for investment files, 225.
- Closed—deposit accounts, 104; corporate trust accounts, 268; individual trust accounts, 348.
- Coal trust, 263.
- Co-assignee, 291.
- Co-executor, 297, 359.
- Coin counting and wrapping devices, 80.
- Collateral, 119-123; arrangement of, 129; changes slip, 443; index, 123, 129; inheritance tax, 297; mortgage bonds issued by trust company, 141; note, 122; power of attorney to transfer, 123; record, 123, 129-130; substitution of, 129-131, 262; trusts, 262.
- Collection—by Federal Reserve Bank, 158; foreign, 243; items deposited for, 76; maturity index, 77; record, 77; sheet, coupons, 311-313; sheet, dividends, 314; sheet, registered interest, 314; window, 74.
- Collector, rent, 325.
- Commercial agency statement, 179.
- Commercial and Financial Chronicle*, Quotation Supplement, quotations derived from, 224.
- Commercial paper, 379-396; for agricultural purposes, 153; best form of, 391-396; brokers of, 389; buying of, dangers, 390-391; certain forms, highest type commercial asset, 391; "Clafin," 381; creation of, by trust companies, 169; dealings in, open market, 389; definition of, 379; direct borrowing upon, 156; discounting, 119, 128; eligibility, 152-156; essentials of, 380; general ledger account of, 426; as investment, 375; Jenks Bill, type of, 391-396; limited to commercial transactions, 153; list of, for discount, 156; "long" and "short," 380; maturities of, 380; maturities limited, 153; open market for, 389-390; regulated by law, 381-382; "self-liquidating," 380; single name and two name, 387-388; theory of, 387; types and varieties of, 159, 380, 381-382.
- Commercial paper at Federal Reserve Banks—classes of, 159-161; collec-

- tions and renewals, 158; definition of, 379; policy concerning, 379, 388-389; rates, 160; regulations of, 382; restrictions upon, 152-160; of small amounts, 156; testing of, 153.
- Commissioner of Banking, state, examination by, 435.
- Commissions, 208, 336, 355-359; on corporate trusts, 294; fixed by court or statute, 357; general ledger account, 429; individual trusts, 348, 349; record of, 358; trust, general ledger, 352: *see also* Compensation.
- Committee—of board of directors, 33; of estate, 11, 300.
- "Community Trusts," 300.
- Company's general ledger, 424-433.
- Comparative—balance sheets, 432; monthly report, safe deposit department, 412; trust department, balance sheet, 354-355.
- Compensation 294, 355-359; American Bankers' Association rules for, 355, 472-487; in California, 355; exorbitant, 356; standardized, advantages of, 356; *see also* Commissions.
- Competitive bids for supplies, 454.
- Comptroller of the Currency, examinations by, 435; reports of, upon National Banks, 434.
- Conservator, 11, 300.
- Consumption "indexes," 186.
- Contracts—deposit of valuables, 407; index of, 144; rent of safes, 402-403; for supplies, 457.
- Controller, 423-424; relation of, to statistical department, 219; *see also* Comptroller.
- Co-operative agencies for credit information, 182.
- Copier, roller, 442.
- Corporate trust department, 259-294; manager of, 66.
- Corporate trusts, 8-9, 259-294; accounts, 293; compensation for, 294; closed, 268; ledger, 293; record of, 263, 269, 276, 281, 293.
- Corporation mortgage, 259; in default, 260, 288; record of, 263-264.
- Corporations—authority for opening account of, 414; certificate of election of officer, 407; forbidden to practice law, 68; public service, securities of, 373; resolution giving access to safe, 406.
- Correspondence, 64, 440-446; real estate, 326, 445; transfer room, 446; trust, 445.
- Correspondent, foreign, 247.
- Cost accounting, 198.
- Costs—analysis of, 198-208; of banking department of trust companies, 201; ledger, 198; operating, 198-216; "overhead," 200.
- Co-trustee, 299.
- Cotton statistics, 237.
- Counsel—for trust estates, 296-297; general, 67.
- Coupon bonds—arrangement of, 309-311; due or called, 313; index, 304; label, 309; record individual trusts, 340; record of, issued in lieu of registered, 269; registered, 271.
- Coupon mortgage loan, 321.
- Coupons, 311; collection of, 334-335; collection sheet, 311-313; credit book, 313; credit slip, 313; cutting, 303, 308, 311, 313; deposit of, 77-78; envelopes, 270, for collection, 78, 270; in default, 315; paid by fiscal agent, 269; scratcher for paid, 270; statement of paid, 271.
- Court—accounting to, 297-301, 349, 351; appointment of receiver by, 291; compensation fixed by, 357; probate, surrogate, or orphans', 297.
- Court trusts, 27.
- Credit—accounts, general ledger, 425; average balance card for, 184-185; book, coupon, 313, dividend, 315, interest, 314; information, arrangement of, 183; Federal Reserve, how granted, 157; foreign, acquiring and establishing, 244, 247.
- Credit department of trust companies, 169-188; contrasted with statistical department, 235; False Statement Act as assistance to, 176; functions of, 170; general study of credit by, 185-186; granting of credit by, 169-179; keeping track of liabilities by, 185; relation of large and small bor-

- rowers to, 179; sources of information for, 171, 179, 185-186.
- Credit, letters of, 252-255; agreement concerning, 254; record of, issued or guaranteed, 255.
- Credit slips—coupon, 313; deposit of valuables, 410, 412; dividend, 314; interest, 314; mortgage interest and principal, 320-321; rent, 329; rent of safe, 406, 412; trust, 334.
- Cremation of bonds by trustee, 263.
- Curator, 11, 300.
- Custodian, 12, 301; of enemy property, 15.
- Customers—acceptance agreement, 161-162; statement, for credit, 171-176.
- Daily balance and interest slip—individual depositors', 109-111; individual trusts, 350.
- Debit—accounts, general ledger, 425; balances, trust department, 336.
- Debts, preferred, 297.
- Deed—of assignment, 291; trustee under, 299.
- Default, record of interest in, 315.
- Delivered, record of securities, 307, 329, 339, 348.
- Delivery—of bonds by trustee, 261; "good," 123, 279-281; order for valuables, 410; rules of New York Stock Exchange for 504-517; of trust securities, 302, 424.
- Demand loans, 118; form of note, 123-124; general ledger account, 426; interest on, 125-127; ledger, 123-125, 126; notice of change of rate, 135.
- Deposit—analysis sheet, 209; book, 74; care of, 103; savings department, 414-415; certificates of, general ledger account, 428; certificate of, of securities, 288-290; certificate of, of valuables, 407-410, 412; of securities, 400, 401; of valuables, 400, 407-410; *see also* Pass Book.
- Deposit slips—73-74; for coupons, 73; filed, 113; posted, 108; savings department, 415, 418; "star" entries, 114.
- Depositary, 12, 301; commissions of, 294; under plan of reorganization, 9, 288.
- Depositors, individual — accounts opened, 103; bookkeeper, 105; daily balance and interest slip, 109; index, 104; card, 414; interest allowed, 109-111; ledger, 105-106; sheet, 417; monthly statements, 74, 106-107, 111; record of, accounts opened, 104; record of, accounts closed, 104; savings fund, 414; statement sheet, 106; trial balances, 114.
- Deposits—care of, 103-115; for collection, 76; coupon, 73; created through loans, 170; demand, 375; gross income value, 208; interest upon, 71, 109-111; made without pass book, 74; by mail, 74; modern ledger for, 106; monthly statement of, 74; by organizations, 414; receipt of, 73; rules and regulations, 415; savings, 427; special, 427; subject to check, 427, 428; time, 375; of trust companies with banks, 83.
- Depreciation of plant, 452.
- Deputy, appointment and identification of, 405, 408.
- Dictaphone, 441.
- Directorates, interlocking, 36.
- Directors, 32-36; attestations by, 35; chairman of board of, 54; committees of, 33; eligibility, under Clayton Act, 36; examinations by, 437-438; fees, 35; indirect returns to, 35; item of expense account, 146; of Federal Reserve Banks, 151.
- Disbursement of trust funds, 335-338; index of, 336.
- Discount—foreign, 242, 244, 245-246; at Federal Reserve Banks, 152-162; rates, 133-134, 160; sheet, of Federal Reserve system, 133; *see also* Commercial Paper.
- Distribution—of expenses, 146-147; of interest accrued, 139.
- District of Columbia—code of banking, etc., laws of, 461-471; trust companies in, 13, 421.
- Dividend—check, 143, 272; collection of, 314; declared, 285; general ledger account, 428; list, 143, 271, 285; notice, 143, 272; orders, 78, 142; paid by fiscal agent, 271; record in security index, 305; on trust company's stock, 142; upon voting trust certificates, 286.
- Double liability of stockholders, 31.

Draft advice and record, 251.
 Drafts, 382; foreign, 243; documents connected with, 244; received for collection, 76.
 Due to banks and bankers, general ledger account, 427.
 Duplicate systems of ledger accounts, 106.
 Duplicating systems, 441.
 Earnings, analysis sheet, 208.
 Election—of directors, 30; of officers, notice to safe deposit department, 407.
 Eligibility, elements of, in discounting commercial paper, 152-156.
 Employees, 446-450; character and ability essential in, 447; schools, welfare work, and other benefits or rewards for, 447; tests of, mental and physical, 446.
 Employment manager, 447.
 Enemy property, 15-17, 18-19.
 England, Bank of, 133.
 Envelopes—for coupons, 270, 313; for insurance policies, 333; for keys, 331; loan, 132; "outlook," 272; salary, 149.
 Equipment, maintenance of, 147.
 Errors in cash, 82, 429.
 Escrow, 12, 289, 301.
 Estate, index, 348.
 Examinations, 424, 433-439.
 Exchange—arbitration of, 246; bill of, 382-384; cambist, 246; foreign, 241; foreign department, 249; rate of, defined, 241; "indexes" of, 186; policy and market, 248; record of, bought and sold, 255.
 Exchanges—bank, 83; clearing house, 87-103.
 Executor, 10, 296-298, 359, 362; and trustee, combined, compensation of, in Pennsylvania, 359.
 Expense account, 144-148.
 Expenses—check for, 145; distribution of, 146; of foreign banking, reduced by branches, 258; general ledger account, 147, 428, 430; index of, 148; legal, 146; miscellaneous, 147; payable, general ledger account, 146-147, 428, 430; record of, 144-148.
 Expiration—notice, collateral insur-

ance, 333; insurance policies, index, 332; of leases, index, 329.
 Express company agreement to transport valuables, 410.
 False Statement Act, 176.
 Farmers' Loan & Trust Co., New York, 4.
 Federal Reserve Act—as to acceptances, 161; compliance with, 44; control of Reserve Banks, 151; direct borrowing under, 156; giving power to define commercial paper, 382; granting fiduciary powers to National Banks, 13, 47; maturity of paper limited, 153; providing for both one and two name paper, 387; reserve requirements, 117; restrictions upon loans, 156; theory of commercial paper under, 387. *See also* Federal Reserve Banks, Federal Reserve Board, Federal Reserve system.
 Federal Reserve Agent, 151; application to, for acceptance power, 161; as chairman of Federal Reserve Bank board of directors, 151.
 Federal Reserve Banks—acceptances at, 161; application form, for rediscount, 154-156; borrowing from, direct, 156; clearing house service of, 164; collections by, 158; co-operative examination and oversight by, 434; control of, 151; credit, how granted by, 157; dead balance at, 164; directors, 151; essentially co-operative institutions, 434; loans, discounting not permitted, for certain purposes, 153; making use of membership in, 151-168; rates of discount, 160-161; rediscounting by, 152-162; rediscounting, application form for, 154-156; renewals at, 158; reports of Comptroller on National Banks accepted by, 434; reserve balances at, 164-167; reserves, required, of member trust companies, 117; statements of borrowers to, 153, 157; telegraphic communication between, 91, 157, 165.
 Federal Reserve Board—application to, for fiduciary powers by banks, 48; application to for membership, 40-

- 42; capital issues regulation by, 365; discount rates fixed by, 133; granting of fiduciary powers by, 13, 47; par list, 91, 165; policy, regulations, and theory as to commercial paper, 382, 387-388; restrictions of, upon lending by trust companies, 13; storage of gold with, 96. *See also*, Federal Reserve Act, Federal Reserve Banks, Federal Reserve system.
- Federal Reserve system, 39-53; advantages and disadvantages of membership in by trust companies, 49-52, 87; application for membership in, 40, requirements for, 41, 43, rejections of, 43; resolution signifying intention to enter, 42; application to, for fiduciary powers, 48; balances of member banks, 92; "call" and collateral loans unknown to, 133; character of, 50; clearing checks, etc., through, 87-94; control of member banks, 151; cost and saving through, 165; direct borrowing from, and perversions of, 156; discount rates, 133-134; duties and obligations of members of, 46; examination and oversight of accounts by, 434; "gold settlement fund," 90; gold storage with, 90; investments by trust companies under, rules for, 135; making use of, 151-168; par list, 91, 165; privileges of, 45; problems of trust companies in relation to, 167-168; re-discounting, 152; regulations, for clearing checks, 90-94; requirements as to reserves, 117; reserves, of members, 95, 164, penalties for impairment of, 46, 165; state banking reports accepted by, 434; trust functions conferred upon National Banks, 13, 47.
- Fees, record of, 358.
- Fidelity insurance, 7, 13, 419, 448.
- File—of credit information, 183; of borrowers' liabilities, 185.
- Filing system, vertical, 442-446.
- Finding index, correspondence, 442.
- Fire insurance, 331-333; collateral with mortgage, 318, 322, 331-333.
- Fiscal agent, 9, 66, 269-274; commissions, 294.
- Flat coupon bonds, 140, 309.
- Foreclosure of mortgage, 318.
- Foreign—agency, 247; accounts, ledger sheet, 251; "bill," 244; business, controlling, 258; collecting, 243; correspondents, 247; credit, acquiring, 247; department, earnings analysis of, 209; discounting, 242; drafts, and documents accompanying, 243; remittances, 245.
- Foreign banking, 239-258; contrasted with domestic, 240; organization for, 241.
- Foreign exchange, 245-246; accounting system, 251; arbitration of, 246; department, 249-258; policy and market, 248.
- Forms—index of, 457-458; list of, 537-542.
- General ledger, 138, 141, 146, 147, 148, 424-433; corporate trust, 293; trust, 351-355.
- General officers, 54-70, 146, 423.
- Girard Trust Company, Philadelphia, 4.
- Gold—in exchange transactions, 249; settlement fund, of Federal Reserve system, 90; settlement of trade balances with, 241.
- Good delivery, 123, 279-280, 504-517.
- Government—bonds, 371-372; regulation of banks and trust companies, 13-15.
- Graphic charts, in statistical analysis, 225.
- Great Britain—legal investments in, 363; Public Trustee Act of, 18, advisory committee upon investments, 377.
- Ground rents, 322, 341; as investments, 373; general ledger account, 426.
- Guardian, 11, 300.
- Housekeeper, 450, 453.
- Identification card—depositor of valuables, 407; deputy, 404, 408; safe renter, 402, 403.
- Illinois, banking laws, 24, 71.
- Illinois Trust and Savings Bank, 413.
- Inactive accounts, 114.

- Income**—distinction between principal and, 138, 335; general ledger, 425; individual trust ledger, 349; trust, general ledger, 352.
- Income**, nature of, 360-362.
- Income tax**—advice concerning, 197; analysis of income for, 193-194, forms for, 194-195; text books upon, 192; regulations of Internal Revenue Bureau, 78, 195; returns, 192-197; state, 193; withholding, 195; *see also* Taxes.
- Index**—balances for investment, 378; beneficiaries, 445; closed deposit accounts, 104, 415; collateral, 123, 129; collection maturity, 77; contracts outstanding, 144; correspondents, 442; credit information, 183; depositors of valuables, 407, 412; forms and equipment, 457; individual depositors, 104; insurance policies, company, estate, location, maturity, 332-333; leases maturing, 329; mortgage correspondence, 446; mortgage interest payers, 320; mortgage location, 322; mortgage maturity, 322; mortgagors and interest payers, 321; principal balances, 378; quotation, 220-225; real estate location, 329; safe renters, 402-404, 412; safes rented, 405; securities, 304-308, 311, 314; securities maturing, 307; securities for sale, 141; signatures, depositors, 104; signatures, savings department, 414-415; stockholders, 142, 273; tenants, 329; trust balances for investment, 378; trust disbursements, 336; trust estates, 348, 445; trust securities, 304-308; valuables deposited, 408-409; vouchers, 148.
- "Indexes,"** of business conditions, 186-187.
- Individual depositors**—accounts opened, 103; bookkeeper, 105; daily balance and interest slip, 109; index, 104; interest allowed, 109-111; ledger, 105-114; record of accounts opened, 104; record of accounts closed, 104; trial balances, 114.
- Individual trusts**, 10-12; daily balance and interest slip, 350; department, 295-359; ledger, 329, 348-351; manager of department, 67; record of, 302, 338-348; scratcher, 350; trial balances, 351.
- Indorsement of checks**, 83; by trust department, 335.
- Inheritance taxes**, 195-196.
- Inspection card**, real estate, 329-330.
- Inspectors**, real estate, 325.
- Insurance**, 7, 13; against forged or altered checks, 87; clerk, 332; collateral with mortgage, 318, 322, 331-333; expiration notice, 333; life, fidelity and title, 419-422; on real estate, 331-333; records, 322, risks not compatible with trust business, 7, 14, 421; slip or memorandum, 333.
- Interest**—accrued payable, 428, 430; accrued, distribution of 139; accrued receivable, 139, 426; and balance slip, 109, 350; bill, 125; collection of, 314; in default, record of, 315; on loans, 119, 125, 127, 133; on mortgages, 318; orders deposited, 78; paid depositors, 71, 109-111, 428, 430; paid by fiscal agent, 273; rate, notice of change in, 125, 135; receipts, 426, 430; record, in security index, 306; on savings accounts, 418; slip, 109; statement to depositors, 111; table (1 day @ 2%), 112.
- Interlocking directorates**, 36.
- Internal Revenue Bureau**, income tax regulations of, 78, 195.
- Intestate laws**, 298.
- Inventory**, 297, 300; and schedule of annual order for supplies, 455.
- Investing**, machinery of, 377-378.
- Investment**—files, 225; index of balances for, 378; ledger, 138.
- Investments**, 135, 360-378; assigned by trust officer, 69; balance for, record and index of, 378; conservative, 367; "dead," 368; files, 225; fundamental principles, 360-362; ideal, 362; individual trust ledger, 350; interest accrued upon, 138; legal, 135, 362-365, in Pennsylvania, 363, in New Hampshire, 363-364; made by President and finance committee, 61; making and changing, 377, 378; rules for making, 366-369; rules of Federal Reserve system concerning, 135-136; in stocks, 366-

- 369, 375; for trust accounts, 354; of trust companies, 135-140; trust, general ledger, 350; types of, 370-375.
- Irredeemable ground rent, 322.
- Jenks Bill, 391-396.
- Jenks, John S., 391.
- Joint—access to safe deposit box, 399, 405; account, 414.
- Journal—general, 430, 431; corporate trusts, 293; entries, 148, 426, 428, 430; trust general, 354.
- Keys—envelopes for, 331; for safe deposit boxes, 402.
- Label, coupon bond, 309.
- Labor turnover, cost of, 446.
- Land Transfer Act, Torrens, 326, 421.
- Law—"blue sky," 365; concerning investments, 362; trust companies forbidden to practice, 68.
- Laws, code of, District of Columbia, 461-471.
- Leases, 325; index of expiration of, 329.
- Ledger—bills receivable, 128, 129; bond, 138; commercial paper, 128; corporate trust, 293; demand loan, 123-126; deposit of valuables, 409; depositors, authority for entries in, 114; expense, 202-204; foreign accounts, 251; general, company's, 293, 424-433; income tax return, 194; individual depositors, 105-114; individual trust, 348-351; investment, 138; liability, borrowers, 185; liability, foreign banking, 255-256; loan, 123; loose-leaf, *versus* bound, 106; mortgage, 319; rent, 327-329; rent of safes, 405; savings fund department, 415-418.
- Legacies, 297, 338.
- Letter of Credit, 252; agreement, 254; record of, issued or guaranteed, 252.
- Letters—copied, filed, etc., 440-446; of credit, 252-256; testamentary, 297.
- Liabilities—foreign, 255; general ledger, 425; keeping track of, 185.
- Liability—of safe deposit company, 399, 405; of stockholders, 31; of trust company, 302; of trustee under corporation mortgage, 8, 259.
- Library, 225.
- Life insurance, 7, 13, 419.
- Life tenant, 365.
- Lighting and heating, expense account, 146.
- "Line" index, insurance policies, 333.
- List of forms, illustrated or described, and supplementary lists, 537-542.
- Listing stocks or bonds, requirements New York Stock Exchange, 488-503.
- Loans, 118-132; accession book, 123-125; application form for, at Federal Reserve Banks, 154-156; called 119; clerk, 118-123; demand, 118, 122-127, 426; envelopes for, 132; from Federal Reserve Banks, 152-162; on "foreign bills," 244; general ledger accounts, 426; ledger, 123, 125-127; margin upon, 122, 132; mortgage, appraisal of, 315-316; to officers and directors, 120; rates of interest upon, 119, 125, 133; rates of interest at Federal Reserve Bank, New York, 160; time, 127-128, 133, 426; treasurer responsible for, 63; "self liquidating," 156, 391.
- Location index—insurance policies, 332; mortgages, 322; real estate, 329.
- Loose-leaf—book, for statistics of an industry, 229; ledger, 106, 123; ledgers, *versus* bound, 106; record of statements, 229.
- Loss, profit and, 429-430.
- Luncheon room, 453; itemized expenses, 147.
- Machinery of investing, 377-378.
- Mail—banking by, 79; deposits by, 79; outgoing, 441; room, 440-446; register of incoming, 441; sorting tray, 442.
- Maintenance—of building, 147; of equipment, 147.
- Manager—of Corporate Trust Department, 66; employment, 447; of Foreign Exchange Department, 249; of Individual Trust Depart-

- ment, 67; of underwriting syndicates, 286, 294.
- Margin on collateral loans, 122, 132.
- Marriage settlement, deed of, 300.
- Maryland, ground rent in, 322.
- Massachusetts—incorporation and reserve fund of trust companies, 23; regulation of trust companies in, 14, 23.
- Maturity—of mortgage loans, 318; notice, time loans and commercial paper, 127.
- Maturity index—collection items, 77; insurance policies, 332; leases, 329; mortgages, 322; securities, 307-308.
- Messengers and watchmen, 450; expense account, 146.
- Minutes of Board of Directors, 65.
- Miscellaneous—securities, arrangement of, 308, index of, 306, record of individual trust, 341; subjects, 440.
- Money—exchanging foreign, 244, 246; new, 81; rate, 133.
- Mortgage, 315-322; abstract of corporation, 264; application for, and form, 316, 444; assignment of, 316; bills, 320, 321; charge slip, 320; correspondence, 445; credit slip, 320; foreclosure of, 318; general ledger account, 426; and ground rents, as investments, 373; held for trust estates, 317; index of payers, 321; insurance, collateral with, 322, 331-333; interest on, 321; ledger, 319; location index, 322; maturity index, 322; record, of corporation, 263-269, 293; record of individual trusts, 341; recorded, 317; satisfaction of, by trustee, 263; scratcher, 321; to secure bond issue, 259, 426; settlement, 317, 320.
- Mortgagors, index of, 321.
- Mutual insurance companies, 29, 419.
- National Banking Act, 31.
- National Banks, Comptroller's reports of, accepted by Federal Reserve Banks, 434; *see also* Banks.
- New accounts—depositors', 103; savings department, 414.
- New Hampshire, legal investments in, 363-364.
- New York—general trust company law, 20; rates of discount, Federal Reserve Bank, 160; trust companies, banking functions of, 71.
- New York Clearing House, 91; regulations of, 96-102.
- New York Life Insurance and Trust Company, 4.
- New York Stock Exchange—requirements for listing stocks and bonds, 488-503; rules, 274-275; rules for dealing, 510; rules for delivery, 504-517.
- New Zealand—Public Trust Office, 17, trustee companies in, 7.
- "No defence," or "no set-off," certificate of, 316.
- "No protest," 78.
- Note—broker, 389; collateral, 122; promissory, 159, 382-383.
- Notes—arrangement of, 132; collection of, 314; of Federal Reserve Banks, 81; form, 123, 124; and miscellaneous securities, individual trusts, 306, 341; types of, 382-383; received for collection, 76; Victory, rates of discount, New York Federal Reserve Bank, 160: *see also* Commercial Paper.
- Notice—change of interest rate, 127, 135; election of officers, 407; expiration of collateral insurance, 333; withdrawal, savings department, 414, 415.
- Numerical filing system, 442.
- Office building, 451-453.
- Officers, 54-70; general, 146, 423; loans to, 120; positions combined, 54, 61, 65, 69; women as, 448.
- Open market, for commercial paper, 389.
- Operating costs—of trust companies, 198-216; apportionment of, 200-203; of banking department, 201; "loading" of, 208; "overhead," 200.
- Order book—for repairs to real estate, 331; special for check books, 144; for supplies, 144, 457.
- Organizations, corporate or unincorporated, authority for depositing saving funds by, 414.
- Organizing a trust company—under special acts, 20; under general laws,

- 20-36; in California, 25; in Illinois, 24; in Massachusetts, 23; in New York, 20; in Pennsylvania, 21.
- Orphans' court, 297.
- Overdrafts, 114; foreign credit, 247; notice of, 114.
- Overhead expenses, 200; apportionment of, 200.
- Paine, George H., 392, 394, 395.
- Paper, commercial, 379-396.
- Pass book, 74, 77, 105, 106, 111, 113, 415-416; control clerk, 415-418; entries, verification of by depositor, 415.
- Pay roll, 149; slips, 81.
- Payers, mortgage interest, index of, 321.
- Paying teller, 79-87, 401, 406; daily proof, 416; errors by, 81-82; savings department, 416; settlement book, 85; trust department, 335-338.
- Payments—book, petty cash, 148; stopped, sheet, 86.
- Pennsylvania—executor and trustee in, combined, compensation of, 359; general corporation law, 21; ground rent in, 322; legal investments in, 363; title insurance in, 421.
- Pennsylvania Company for Insurances on Lives and Granting Annuities, 4.
- Pensions, 447, 449.
- Perpetuity, trusts in, 300.
- Petty cash—for payment of coupons, 270; payments, 148; receipts, 148, 430.
- Philadelphia ground rents, 426.
- Plant, depreciation of, 452.
- Plate glass insurance, 332.
- Portfolios, for securities, 132, 140, 308, 309.
- Postage stamps—*see* Stamps.
- Postings—general ledger, 431-432; individual depositors' ledger, 106-109; savings department ledger, 417; stock ledger, 285; trust ledger, 350.
- Power of attorney—general or special, 11, 300; to transfer collaterals, 123; to transfer securities, 274; to transfer stock, 280.
- Power—of sale, 323; of substitution, 281.
- Premium, charged off, 139.
- President, 54, 57-61.
- Principal—accounts, general ledger, 425; balances, index of, 378; distinction between income and, 138, 335; individual trust ledger, 350; paid by fiscal agent, 274; trust general ledger, 352.
- Probate court, 297.
- Production "indexes," 186, 187.
- Profit and loss, general ledger account, 351, 429, 431.
- Profit sharing, with employees, 447.
- Profits—not to be made by sales to trust estates, 376; undivided, general ledger account, 429, 430.
- Promissory note, 382.
- Promotions, 448.
- Properties—custodian of enemy, 15; rented and vacated, record of, 329.
- Protest, notes, etc., 78.
- Proxy, voting by, 30.
- Public Accountant, examination by, 438-439.
- Public Service corporations, bonds of, 373.
- Public Trustee, 15-19; in Great Britain, 18; advisory committee with, upon investing, 377; under British Trading with the Enemy Act, 18; in New Zealand, 17.
- Purchase—ledger, 148; money mortgage, 316; of supplies, 454-458.
- Quotation index, of securities, 220; cards of, annual, and monthly, 220-225; divisions of, 223.
- Quotations, stock, 121.
- Rate—of charges in general, 294, 355-359; of interest on loans, 119, 125, 133; notice of change of, on loans, 127, 135; of rediscount by Federal Reserve Banks, 133-134.
- Real estate, 323-333; abstract record of, 341; appraisal, 315-316; correspondence, 445; department, 323; general ledger account, 426; held by trust company, 136, 451; inspection card, 330; insurance upon, 331-333, 420; insurance expiration in-

- dex, 322; officer, 323; records, 325; resolutions authorizing sale of, 65.
- Rebates, rent of safe, 406, 412.
- Receipt—and identification card, rent of safe, 402-403; and identification card, deposit of valuables, 408-409; for pass book and cancelled checks, 113; for rent of safe, 402, 403; of savings deposits, 414; for securities delivered, 303, 307; for taxes, 318, 319; temporary, for securities deposited, 288; of trust funds, 334-335, 424; for valuables, 410.
- Receipts book, petty cash, 148.
- Received, record of securities, 302, 307, 329, 338, 341.
- Receiver, 12, 291, 301; accounts, 292; commissions, 294.
- Receivers' certificates, 292.
- Receiving teller, 72-79, 401, 406, 415; daily proof, 415; daily settlement, and form, 75-76; savings department, 415; trust department, 313, 320, 334-335.
- Reconciliation form, for depositors, 108.
- Record—of accounts, foreign, 251; of analyses, industrial, 229; of bonds paid, cancelled, cremated or returned, 268; of bonds received, certified and delivered, 268; chart, 230; of collateral, 123, 129, 130; of collections, 77; of commissions and fees, 358; of corporate trusts, 263-269, 276, 281, 293; of corporation mortgages, 263; of deposit accounts closed, 104; of deposit accounts opened, 104; draft advice and, 251; of drafts, foreign, 251; of exchange bought and sold, 255; of expenses, 145-148; of foreign accounts, 251; of individual trusts, 302, 338-354; of interest in default, 315; of letters of credit issued or guaranteed, 255; of mail, 441; of persons entering safe deposit department, 398, 410; of properties rented and vacated, 329; remittance advice, and, 251; of safes rented and surrendered, 411; of securities delivered, 307, 329, 339; of securities received, 302, 307, 329, 338, 341; of statements, loose-leaf, 229; of stop payment orders, 86; of supplies, 457; of valuables deposited and withdrawn, 410.
- Recording—of mortgage, 317; of title to real estate, 326.
- Redeemable ground rent, 322.
- Redemption—bonds subject to, 271; provisions, 262, 314.
- Rediscounting, process of, at Federal Reserve Banks, 152.
- Register—of bills discounted and purchased, 386; stock, 276.
- Registered bonds—care of, 308; index of, 304-306; record of individual trusts, 341; record of, issued in lieu of coupon, 269; transfer of, 285.
- Registrar, 9, 66, 274-277; commissions, 294; contract with, 275.
- Registration—of real estate transfers, 326, 420-421; of trust securities, 302.
- Regulations, of safe deposit department, 402, 408.
- Release, 338; deposit of valuables, 407.
- Remainderman, 365.
- Remittance—advice and record, 251; clerk, 335.
- Renewals—by Federal Reserve Bank, 158; safe deposit department, 411.
- Rent—bill, 325, 329; collection of, 325, 327; credit slip, 329; insurance, 332; ledger, 327, 329; lists, 324; of safes, 397, 398, 401-407; receipt for, of safes, 402, 403.
- Rentals—safe deposit department, 411; general ledger account, 429.
- Reorganization—depository under plans of, 9, 288-291; record, 290.
- Repairs—to real estate, 324, 325, 331, 336; bills for, 331, 338; charged to income, 452-453; checks for, 331; inspection of, 325; orders for, 331.
- Reports, 424; daily cash, 432; safe deposit department comparative monthly, 412; to state banking department, 136, 433; to stockholders, 30, 433.
- Requisition, for supplies, 457.
- Reserve—Act; Agent; Banks; Board; system: *see* Federal.
- Reserves, 13, 63, 115-117, 152; avail-

- ability and character of, 115-116; gold, 152; of members with Federal Reserve Banks, 165-167; problems concerning, simplified by membership in Federal Reserve system, 117; required in Massachusetts, 23; to secure policy-holders, 419.
- Resolution—giving access to safe deposit box, 406; signifying intention to enter Federal Reserve system, 42; applying for fiduciary powers, 48.
- Responsibility of trust companies as corporate trustees, 8, 259.
- Restaurant, 453-454; itemized expenses, 147.
- Risks, insurance, etc., not compatible with trust business, 7, 14, 421.
- Roller copier, 442.
- Safe deposit department, 12, 147, 397-412; comparative monthly report, 412; index of safe renters, 402; rentals, general ledger account, 429.
- Salary, 55, 448; book, 149; checks, 149; executive, apportionment of, in costs, 200; list, 149; payment of, 64, 149.
- Sale—power of, 323; of real estate, agreement, 329.
- Sample books, supplies, 457.
- Satisfaction of mortgage by trustee, 263.
- Savings fund-department, 413-418; bookkeeping methods, 415-418; deposit book, 415; deposit slip, 415; deposits, general ledger account, 427; deposits not subject to check, 415; item in expense account, 147; rules and regulations, 415.
- Schedules, of securities, 289.
- Scratcher—for coupons paid, 270; individual trusts, 350.
- Seal, 27.
- Sealing machine, 442.
- Secretary, 64-65, 440; private, and stenographer, combined, 441.
- Securities—analysis of, 225-233; arrangement of company's, 140; basic information concerning, 226; care of, 12; trust, 301-314; carried for sale, 376; delivered, record of, 307, 329, 339, 348; deposit of, 288, 400-401; engaged but not paid for, 378; held for trust investments, 304, 308-311; index of, for sale, 141; index of, quotation, 220-225; information concerning, 225-233; "legal," 363; machinery of investing in, 377-378; maturing, index of, 307; maturity of, 374; miscellaneous, 306; public service, 373-374; purchase and sale of, 140-142; 376-378; taxing power behind, 372-373; received, record of, 302, 307, 329, 338, 341; record, of individual trusts, 339; for sale ledger, 141; shrinkage of, 367; unmarketable, not to be sold to trust estates, 376; worthless, 306, 309.
- Security, required of trustees, etc., 297, 299.
- Separation of trust assets from company's, 5, 295, 296.
- Settlement—for mortgage, 317, 320; paying teller's, 81, 82, 85; for real estate, memorandum of, 331; receiving teller's, 75, 76; trust disbursements, 338; trust receipts, 335.
- Shelves, roller, 310.
- Signature—card, 104, 114; joint, 414; index, depositors, 104; index, savings department, 414, 415.
- Signing machine, 261.
- Signograph, 261.
- Sinking fund—of bonds issues, 377; provisions in corporation mortgages, 262.
- Social service, etc., for employees, 447.
- Sorting tray—bookkeeper's, 108; for dividend checks, 273; for letters, 442.
- Special deposits, general ledger account, 427.
- Specimen signature index, 104, 414, 415.
- Stamps, postage—general ledger account of, 426; method of handling, 442; saving of, by use of mail sorting tray, 442.
- "Star entries," deposit and charge slips for, 114.
- State regulation of trust companies, 14, 119, 434-435.
- Statements, 424: of borrowers, for credit, 171-179, analysis of, 176, sample form of, 173-175; not re-

- quired for small loans, 156; of borrowers, for Federal Reserve Bank, 153-156; of commercial agency, 179-181; of condition, 31, 136, 433-434; of coupons paid, 271; to depositors, 77, 106-107; individual trust department, 351; record of, loose-leaf, 229.
- Stationery, 455.
- Statistical department, 217-238; as adviser, 235; assistance of, in investing, 377; contrasted with credit department, 235; correspondents and investigators for, 237; files, 225; functions of, 218; future development of, 234; Government reports for, 236; organization of, 219-220; records, and reference library of, 219-234.
- Statistician, 219-220.
- Statistics—of cotton, 237; of industries, 229, 237; export and import, 238; relative to real estate loans, 316.
- Stenographers, 440-441.
- Stock—analysis, and basic information concerning, 228; care of, 301, 308; certificates, 142, 276, 277, 279, 280; delivered by transfer, 284; general ledger account, 426; index, 304-308; inventory sheet (supplies), 455; as investment, 375; jobbing, 288; ledger, 142, 271, 284-285; record (supplies), 457; listed in different cities, 285; part paid, 284; placed to order, 283; quotations, 121; register, 276; requisition (supplies), 457; "rights," 375; rules for listing of at New York Stock Exchange, 488-503; sheet, record of individual trusts, 340; transfer, 142, 302; transfer book, 282, 284; transfer sheet, 285; transfer taxes, 286; trust certificates, 286.
- Stock exchange—collaterals, 123; New York, requirements for listing stocks or bonds, 488-503; New York, rules for delivery, 504-517.
- Stockholders, 29-32; examination by, 438; index of, 142, 273; liability of, 31; meetings, 30; reports to, 30, 433; represented by directors, 32; relation of, to voting trusts, 286.
- Stockkeeper, 455.
- Stockroom, 457.
- Stop payment orders, 86; record of, 86.
- "Straight promissory note," 159.
- Subject, filing by, 444.
- Substitution—of collateral, 129, 131; power of, 281.
- Superintendent of building, 450.
- Supplies—purchase and care of, 454-458; record of, received, 455.
- Suretyship, 7, 13, 420, 448.
- Surplus, 27; general ledger account, 429.
- Surrender, of safe, 403-405, 410.
- Surrogate's court, 297.
- Syndicate—accounts, 288; commissions, 294; correspondence, 444; manager, 9, 286-288; participation in, 137.
- Tag, for valuables deposited, 410.
- Tax department, 189-197; organization of, 193; work of, 196.
- Taxation, of securities, 365.
- Taxes, collateral inheritance, 297; corporation excise, 189; cost analysis of, 204; department of, 189-197; federal income, 189-190; general ledger account, 427, 430; high, come to stay, 191; inheritance, 195-196; payable, general ledger account, 427, 429, 430; on real estate, 324; receipts, 318, 319; risks of advice concerning, 197; trust company's interest in, as adviser, as taxpayer, as trustee, 191; and the War, 191.
- Telephone, expense account, 146.
- Teller—paying, 79-87, 401, 406; receiving, 72-79, 401, 406; savings department, paying, 414, 416; savings department, receiving, 415; trust department paying, 335-338; trust department receiving, 313, 320, 334-335.
- Temporary—certificates, 288, investment ledger, 138.
- Tenants, index of, 329.
- Testamentary—letters, 297; trustee, 10, 297.
- Time loans—form of note, 123, 124; general ledger account, 426; ledger, 127, maturity notice, 127; rate of interest on, 134, 135.

- Title insurance, 7, 13, 317, 419-422; registration, 326.
- Tornado insurance, 331.
- Torrens land transfer system, 326, 421.
- Trade acceptance, 382, 385.
- Trade balance—defined, 241; gold settlement of, 241.
- Trading with the Enemy Act, 15; amendment of, 17; British, 18; depositaries under, 16; deposits under, amount of, 16.
- Transfer—binder corporate trusts, 268; binder individual trusts, 348; book for bonds, 285; book for stock, 142, 281-285; books closed, 143; files for correspondence, 446; sheet, 285; of title to real estate, 326; of trust securities, 301.
- Transfer agent, 9, 277-286; commissions, 294; distinction between registrar and, 274; dividend list prepared by, 271-273; liability, 277; duties concerning transfer taxes, 286.
- Travellers—letters of credit, 252-255; checks, 253.
- Treasurer, 62-64, 72.
- Trial balances—individual depositors, 105; general ledger, 425-431; individual trusts, 351; savings department, 416.
- Trust—accounts, investment for, responsibility attending, 377; cash book, 339; funds deposited, 335; funds, disbursement of, 335; funds, receipt of, 334, 335; funds, uninvested, 296, 338, 350, 352; general cash book, 354; general journal, 354; general ledger, 338, 350, 351-355; ledger, individual, 348-351; letters filed, 445; officers, 66-70, 301; papers filed, 348; voting, 286: *see also*, Trusts.
- Trust companies—actuary, 55; advantages and disadvantages of, 2, 5; approved by courts, 4; attitude towards acceptances by, 161; should not hold own acceptances, 164; banking functions of, 7-8; bond department of, 376; borrowers from, keeping track of liabilities of, 185; branches, foreign, 238, 258; cost accounting of, 199-216, analysis of, 200; charges and compensation of, 294, 336, 355-359, 472-487, in California, 355; chairman of board of, 54; charter and capital, 20-29; clearing house relations, 87-103; collecting checks through Federal Reserve system, 165; collecting non-clearing house items, 101; committee on investing, 377; compared with banks, 1, 3, 14, 71; competition between, 357; as competitors of banks, 87; costs and savings to, through Federal Reserve system, 165; control of business by, through stock holdings, 375; controlled by banks, 52, 168; costs of service, 357-359; creation of commercial paper by, 169; credit given by, basis of, 171; credit and credit department, 169-188; current problems of, in relation to Federal Reserve system, 167; departments, 199; deposits in, 5; deposits with banks, 83; as depositaries, under Trading with Enemy Act, 16; development, 4-5; distribution by states, 4-5; earnings of, analysis, 206; examinations of, 434; failures, 5; first organized, 4; forbidden to practice law, 68; foreign department, 238, 243; functions, 1-19; in Illinois, 24, 71; insurance by, life, liability, title, 7, 13, 419-422; interest of, in tax matters, 191-197; joining Federal Reserve system, advantages and disadvantages, 49-53, 87, 165; liabilities, 4, 302; liable for altered or forged checks, 87; loans by, on own stock, 28; membership in Federal Reserve system, 39-53; method of organizing, 20-29; mutual, 29; in New York, banking functions of, 71; objections to, 2, 6; officers, 54; operating costs, 198-216; organization of business of, 55; overhead expenses, 200; personnel of, 447; powers of, 2-4; policy, as to commercial paper, 388-390; purchase of own shares, 28; regulation of, as to discounting paper, 119, as to investments, 135, by federal government, 13, by separate states, 14-15, in the

- District of Columbia, 13, 421, in Massachusetts, 14, 23, 66; responsibility of, as corporation trustee, 8; reserves, 115-117; reserves under Federal Reserve system, 164, 166-167; tendency to composite type of, with bank, 168; titles of, 7; women in, and as officers of, 448.
- Trust department—corporate, 259-294; individual, 295-359; item in expense account, 147; paying teller, 335-338; receiving teller, 313, 320, 334-335.
- Trustee—commissions, 294; and executor combined in Pennsylvania, compensation of, 359; liable for losses, 364; Public, 15-19; rules for investments made by, 362-375; under corporation mortgages and trust deeds, 9, 66, 259-269; under deed, 11, 299, 363; under will, 11, 299; of voting trust, 286.
- "Trustee company," 7.
- Trusts—bureau of, 16; car, 263; coal, 263; for charities, 300; collateral, 262; community, 300; corporate, 8-9, 66, 259-294; "court," 26; enemy property, 15; index of, 348, 445; individual, 10-12, 67, 295-359; opened and closed, monthly statement of, 355; in perpetuity, 300; public, 15-19; record of corporate, 263; record of individual, 302, 338-351; voting, 286: *see also* Trust.
- Typewriting, 440.
- Underwriting syndicate—manager of, 9, 286-288, 294; participation in, 137.
- Undivided profits, general ledger account, 429, 431.
- Uninvested trust funds, 296, 335, 338, 350, 375.
- United States—bonds, best of all investments, 371; Department of Agriculture, crop reports of, 187.
- Vacations, 449.
- Valuables—care of, 12; delivery order for, 410; deposit of, 400, 407-410; receipt for, 409.
- Vaults—safe deposit, 397; trust, 302, 308.
- Vertical filing system, 442-446.
- Vice-President, 55, 61.
- Visitors to safe deposit department, record of, 410.
- Voting trusts, 286; limited to ten years in New York state, 286; trust company, as agent, to hold certificates of, 286.
- Voucher, 424; for expenses, 145; index, 148; record, 145; for trust disbursements, 337-338; and voucher check, 115.
- War—the Great, shrinkage of investments incident to, 367; and taxation, 191; taxes, to continue long, 191.
- War Finance Corporation, bonds of, loans upon at Federal Reserve Banks, 153.
- Washington—special representatives of trust companies at, 236.
- Watchman, 450.
- Wills, 13, 296, 399; book, 348; register of, 297, 298.
- Withdrawals—savings department, 414-415; slip, 416; notice, 415-416.
- Women, in trust companies, 448.